Irish Social Expenditure in a Comparative International Context

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working for the prevention and elimination of poverty

First published 2003
by the
Institute of Public Administration
57-61 Lansdowne Road
Dublin 4

and

Combat Poverty Agency
Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8

British Library Cataloguing in Publication Data

ISBN 1 904541 01 1

This study forms part of the Combat Poverty Agency Research Series in which it is No. 33.

The views expressed in this text are the author's own and not necessarily those of the Combat Poverty Agency.

Cover design by Red Dog Design Consultants, Dublin
Typeset by Carole Lynch, Dublin
Printed by ColourBooks Ltd, Ireland

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FOREWORD

The Combat Poverty Agency is a statutory advisory body which works for the prevention and elimination of poverty and social exclusion in Ireland. Central to this is the distribution of resources, services and employment opportunities in favour of people living in poverty. Combat Poverty aims to advance this in a variety of ways, including through research and public education. This report aims to contribute to this work by informing the debate about the nature and future direction of the Irish welfare system.

BACKGROUND TO THE RESEARCH

Ireland has a relatively low rate of social expenditure for a variety of historical reasons, including the influence of the British welfare model. Social expenditure refers not just to social welfare payments or income support, but also to expenditure on other social areas such as health and education. In considering how the social welfare system might be reshaped to meet new challenges and further reduce poverty there are a number of important considerations. These include issues such as the following: How are the tax and welfare systems structured and how do they interact? What are the material and social needs of people living in poverty and how can these best be met? What types of service provision will promote both economic and social objectives? How can the quality of life for welfare recipients be improved and new opportunities opened up for them? Some of these questions are addressed in this report.

The reduction of poverty is most effectively achieved through a combination of productionist (economic), welfarist and community based approaches, and the achievement of synergies between these. The interdependence between economic growth, employment and social cohesion was recognised by the European Union at the Lisbon summit. Ireland's economy has undergone a dramatic transformation in the last decade. This transformation has been well analysed in the academic and policy literature. However, the evolution of the social welfare system, and how it has been impacted by the economic transformation, has received less attention. Given the more straitened economic circumstances now facing Ireland, the era of dramatic increases in social expenditure would appear to be over, and issues of efficiency and of value-for-money have come to the fore. This necessitates the adoption of a strategic and integrated vision for the evolution of the social expenditure system.

There is widespread consensus that provision by the state of social welfare, and high quality, efficiently delivered social services have key roles to play in poverty reduction. The social welfare system provides the main source of income support to those who are unable to participate in the labour market and supplements the wages of those on low incomes. The poorest 30 per cent of Irish households have virtually no income from economic activity. Welfare payments bring their share of pre-tax incomes up from under 1 per cent to about 8 per cent.[1] The welfare system also has an important function in helping those who are unemployed back to work and consequently an important role in economic development.

Economic development and social development are often viewed as being in competition, but there are significant complementarities between the two. For example, investment in housing contributes to the development of human capital, in the form of a healthier and more productive workforce.[2] More socially cohesive societies have lower crime rates and this offsets the necessity of other expenditure.[3] The Combat Poverty Agency also supports redistribution of income on social justice and equity grounds.

While Ireland has converged on, or overtaken, many of the European Union states economically, substantial infrastructural and social deficits remain and these in turn have substantial economic costs which may block further development. This raises the question of what type of social expenditure system Ireland now needs or requires.

OBJECTIVES OF THE RESEARCH

The report has a variety of objectives. It aims to provide a resource for researchers and policy makers on the Irish social welfare system. It also aims to contribute to the debate about how the Irish social expenditure system might evolve, and to inform future Irish National Action Plans against Poverty and Social Exclusion (NAPs incl.), which are submitted to the European Commission and annual budgets. These plans have as one of their four objectives 'to facilitate participation in employment and access to resources, rights, goods and services.'

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1 Brian Nolan, Bertrand Maître, Donal O'Neill and Olive Sweetman, *The Distribution of Income in Ireland* (Dublin, Oak Tree Press: 2000).

2 Gary S. Becker, *Human Capital* (Chicago, University of Chicago Press: 1993).

3 Ivana Bacik *et al.*, 'Crime and Poverty in Dublin: an analysis of the association between community deprivation, District Court appearance and sentence severity' in Ivana Bacik and Michael O'Connell (eds.) *Crime and Poverty in Ireland* (Dublin: Round Hall Sweet and Maxwell, 1998).

This study, which is based on published international reports, analysis of social expenditure in select countries and policy reviews:

- defines social expenditure and key related terms, and provides an overview and comparison of different policy instruments
- provides a better understanding of why Ireland has, historically, had a relatively low level of social expenditure
- places this analysis in context by comparing spending patterns in Ireland with those of other industrial countries
- provides a detailed analysis and description of key areas of social expenditure in old age, health, unemployment, active labour market supports and children
- provides data and context to make informed choices about the appropriate size and nature of the social welfare system given Ireland's changed economic circumstances, i.e. both its greater prosperity and recent economic slowdown.

KEY FINDINGS

Ireland has traditionally had a relatively low level of social expenditure as a proportion of gross domestic product (GDP).[4] The report notes that of 15 Organisation for Economic Co-operation and Development (OECD) countries in 1997, Ireland had the fourth lowest net total social expenditure after Japan, South Korea, and New Zealand.[5]

Total social security contributions in Ireland amounted to just under 13 per cent of total taxation in 1997, compared with an EU average of nearly 29 per cent. The Irish tax and social expenditure system could therefore be characterised as a 'low tax, low spend' system and consequently the level of redistribution achieved through the system is also relatively low.[6]

There are, however, exceptions to this general characterisation. For example, the report shows that spending on sickness, health care and

4 For most developed economies GDP is thought to be a better measure of wealth than GNP, but the level of social expenditure is low in Ireland even using GNP, as the report shows.

5 However, this may be partly offset by voluntary private social benefits. Japan and South Korea are countries where welfare provision is substantially delivered through private firms.

6 Eithne Fitzgerald, 'Redistibution through Ireland's Welfare and Tax Systems' in Sara Cantillon, Carmel Corrigan, Peadar Kirby and Joan O'Flynn (eds.), *Rich and Poor: Perspectives on Tackling Inequality in Ireland* (Dublin, Oak Tree Press: 2001).
The tax base also tends to be wider, however, as social contributions are not deductible from the income tax base, for example (Cathal O'Donoghue, 'Redistributive Forces in the Irish Tax-Benefit System', mimeo, 2001).

disability in Ireland is the second highest in the EU as a proportion of GDP. The report identifies the next biggest 'priority areas' of social expenditure in Ireland as 'families and children' and unemployment related social protection.

Dr Timonen argues in this report that, as a proportion of government expenditure, social spending has the highest priority in the OECD. This pattern is also seen in Ireland, where social spending as a proportion of GDP remained constant from 1984 to 1997, but non-social expenditure fell by 14.5 per cent as a percentage of GDP during the period. However, the seeming constancy in social expenditure masks a number of trends.

The proportion of social spending spent on welfare fell from a peak of 14.8 per cent of gross national product (GNP) in 1986 to 8.5 per cent in 1999.[7] This was largely as a result of reduced expenditure on unemployment supports as the economy improved. Also rapid economic growth from the mid-1990s meant there were substantial increases in the absolute amounts available for social expenditure to maintain it as a constant proportion of GNP/GDP. There were thus significant improvements in real welfare rates although, as earnings rose, these fell as a proportion of average disposable incomes, thereby increasing the gap between those on welfare and those at work. Also, social expenditure failed to keep up with economic growth in the latter part of the decade, when it fell as a proportion of both GNP and GDP. A third of households in Ireland continue to live in relative income poverty, although considerable progress has been made in reducing consistent poverty from 14.4 per cent in 1994 to 5.5 per cent in 2000.[8]

The report shows the growth in the absolute amounts spent on social expenditure in Ireland during the 1990s, but raises some concerns about the efficiency of that growth, noting that the category of employment that grew fastest in the health services, for example, was 'management and administration'. This shows how rapid increases in expenditure can create pressure in administering change and that change management needs to be an important element in the delivery of social services. Additional resources spent on administration is obviously money which could potentially have been spent on better health care provision for those who

7 ibid.

8 The relative income poverty line referred to here is 60 per cent of mean income (Brian Nolan, Brenda Gannon, Richard Layte, Dorothy Watson, Christopher T. Whelan and James Williams, *Monitoring Poverty Trends in Ireland: Results from the 2000 Living in Ireland Survey* [Dublin, ESRI: 2002]). Consistent poverty refers to relative income poverty combined with basic deprivation, such as not being able to afford a warm coat.

are disadvantaged. The disproportionate growth of administration represents a loss for both equity and efficiency.

The report also notes that in Ireland social transfers, other than pensions, are heavily concentrated on low-income individuals and households. There is an obvious advantage in this approach in that welfare spending is more directly targeted on those who most need it. However, this approach also has disadvantages. For example, it has given those that are better-off incentives to take out private insurances that are in many cases sponsored by the state through tax reliefs. Thus the Irish welfare state conforms closely to the Anglo-Saxon model, which with its 'emphasis on targeted means-testing for the poor and private occupational plans for core workers … reinforce(s) rather than mute(s) market-based stratification.'[9] People who are in receipt of welfare payments either have rationed access to services such as health care, have to accept lower quality services, or both. This has further knock-on effects for health, human capital formation, life-time earnings and quality of life.

Policy implications

The report notes that in countries with high levels of market income inequality, such as Ireland, more extensive social spending is required to achieve the same poverty outcomes as countries with a more equal market distribution of incomes. Thus the welfare system must 'work harder'. This is the main finding of the report. Ireland has a low level of welfare effort for a rich country, even taking into account factors such as the country's relatively youthful population or the greater provision of private pensions.

Social spending and the labour market

In 1988 the NESC noted that expanded 'welfare effort' over the 1970s reduced inequality of final incomes, even as inequality in market incomes was increasing. However, the report also noted that 'perversely, the enhanced redistributive impact of transfers ar(ose) because of rising unemployment and the necessarily burgeoning role of unemployment payments.'[10] Unnecessarily increasing unemployment is something that must be avoided at all costs.

This current report notes that some countries have high and sustained economic growth while also spending heavily on social protection. It has been observed that the Dutch and Danish employment performance has been

9 Gøsta Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford and New York, Oxford University Press: 1999).

10 NESC, ibid, p. 167.

more impressive than that of Britain or Australia despite massive deregulation in the latter two countries.[11] Substantial reductions in poverty were also achieved. Child family poverty rates fell by 10 per cent in Denmark and in Sweden by 42 per cent from the 1980s to the 1990s.[12] In Sweden the poverty rates for people living in single parent households is the same as that for the entire population.[13] In Ireland their risk is nearly treble the average.[14]

The International Labour Office notes that small open developed economies tend to have strong social security systems to buffer them from the impacts of global economic downturns.[15] In this way there is a complementarity between globalisation and strong welfare systems. In a post-'Celtic Tiger' environment the report calls for higher social spending and particularly for better and more universal provision of services.

The report also welcomes the move from passive to active income support[16] as it notes that this can create work incentives and opportunities for groups such as lone parents and long-term unemployed people.[17] Active labour market policies can facilitate structural change when the economy is near full employment by reducing the mismatch between skills supply and demand.[18] However, there is also a need to develop 'bridge-building' programmes to ensure that transitions from unemployment are into high-quality sustainable jobs.[19] This requires paying attention to the

11 Esping-Andersen, *Social Foundations.*

12 *ibid*, p. 156.

13 Michael Förster and Mark Pearson, 'Income Distribution and Poverty in the OECD Area: Trends and Driving Forces', OECD *Economic Studies* No. 34, 2001/I: pp 7-39.

14 Using the 50 per cent of median income line used in the study by Förster and Pearson. In Ireland 13.8 per cent of persons fell below 50 per cent of median income in 2000. For persons in single adult households with children the figure was 39.7 per cent (Nolan *et al., Monitoring Poverty Trends*).

15 International Labour Office, *Social Security: A New Consensus* (Geneva, International Labour Office: 2001).

16 Active income support provides training to enable people to look for employment or provides cash payments to support people taking up employment.

17 Some authors argue that in addition to active labour market programmes, there is also a need to pay attention to the demand side of the economy (see J. Peck and N. Theodore, 'Beyond "employability"', *Cambridge Journal of Economics*, 24 (2000) and Guy Standing, *Beyond the New Paternalism: Basic Income as Equality* [London, Verso: 2002]).

18 Jaap de Koning, Hugh Mosley and Günther Schmid, 'Introduction: Active Labour Market Policies, Social Exclusion and Transitional Labour Markets' in Jaap de Koning and Hugh Mosley, *Labour Market Policy and Unemployment: Impact and Process Evaluation in Selected European Countries* (Cheltenham, Edward Elgar: 2001).

19 Jamie Peck and Nicholas Theodore, 'Beyond "employability"', *Cambridge Journal of Economics*, 24 (2000): 733.

demand side of the economy in order to ensure sufficient job creation to allow this to happen.

Evidence from the report suggests a need to stabilise 'old age' dependency ratios by encouraging the labour force participation of women, young and older workers. This report argues that as unemployment in Ireland has fallen more people have gained entitlement to contributory payments and would therefore benefit from further improvement in these benefits.

FUNDING AND STRUCTURE OF SOCIAL EXPENDITURE

Higher social expenditure requires higher rates of taxation, broadening the tax base and/or the reduction of tax reliefs.[20] These are sometimes thought to be politically unfeasible and/or economically inadvisable. However, even in the context of constraints imposed by the globalisation of the economy it is possible to raise taxes on non-mobile factors, particularly land and property, without adversely affecting the economy. There is also a debate about corporation tax, with some commentators suggesting this could be raised to 17.5 per cent without deterring inward investment.[21] Other proposals have included the introduction of a third higher rate of income tax of 50 per cent for high earners.

A higher level of redistribution could also be achieved within the system, with the same average level of taxation if the rate of progressivity was improved.[22] Redistribution is achieved through the health and education systems, depending on the extent of the subsidy (direct or indirect) to different social classes. The extent of the subsidy is dependent on the 'take-up' rate of the services by different social groups and, in education, the amount of the additional cost per year, which becomes progressively higher from primary to tertiary levels.[23] Currently middle and higher income groups have higher take-up rates for tertiary education given the competitive points-based nature of admission. This suggests the importance of greater public investment in primary and secondary education in disadvantaged areas to 'level the playing field'.

The report shows that there is a considerable degree of choice in terms of models for social service provision. For example, tax expenditures, e.g.

20 Analysis of the tax system and the impacts on poverty reduction is the subject of a Combat Poverty Agency study to be published in the future.

21 D. Duffy *et al., Medium Term Review 2001-2007*, (Dublin, ESRI: 2001).

22 NESC, *Redistribution Through State Social Expenditure in the Republic of Ireland: 1973-1980*, Report No. 85 (Dublin, NESC: 1988).

23 NESC, *ibid*.

tax relief of pensions and health care, tend to benefit upper income groups disproportionately, whereas direct service provision more directly benefits lower income groups. The report makes clear that there is a need to take tax changes into account when making changes to welfare policy: 'Improving services and making access to services more equitable calls for both decreasing and re-engineering tax relief on private insurance, and for channelling more tax revenue to services' (p. 59). Some of these services can be delivered efficiently through community provision, supported by the state.

SERVICE LEVEL AND DELIVERY

There is a need for 'high pay-off input' approaches in the delivery of services such as health care. Research has shown that when it comes to health care, prevention is better than cure, not only for patients but also for government finances. Preventive, community health care approaches have an important contribution to make in this regard.

A particularly important underprovided service is child care, which has a variety of benefits including building future human capital and allowing parents to more easily access the labour market[24] and to improve their opportunities for second chance education and training.

There is also a need for greater attention to insights from 'new public management theory' with its emphasis on institutional innovation, efficiency, evaluation, customer service and 'joined-up' government to ensure coherence. One of the recommendations of the *Against all odds* report is a greater focus on integrated service provision for people living in poverty.[25]

DATA AND RESEARCH

One of the policy implications from the report is the need for better and more up-to-date data in order to make informed choices about social expenditure.[26] There are data gaps at both national and international levels. At international level there are no reliable longitudinal, cross-

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24 This has been noted in the international literature as an important issue in Ireland. Ireland has a high 'incompatibility score' between having two or more children and employment for women (Blanchet and Pennec [1993] cited in Esping-Andersen, p. 69). Until such time as universal childcare access has been guaranteed, great care should be taken in reducing the number of places for lone parents on programmes such as community employment (CE) as this risks complete detachment from the labour market.

25 Mary Daly and Madeline Leonard, *Against all odds: Family Life on Low Income in Ireland* (Dublin, Institute of Public Administration and Combat Poverty Agency: 2002).

26 Some progress has been made towards this. See National Statistics Board, *Developing Irish Social and Equality Statistics to meet Policy Needs: Report of the Steering Group on Social and Equality Statistics* (Dublin, Stationary Office: 2003).

national data on total social expenditure. In Ireland the report points to the need for better public service expenditure data in order to make informed policy choices.

CONCLUDING REMARKS

In terms of the evolution of social expenditure, there are a variety of issues that must be addressed. The first is how much is spent. This report makes a convincing case that there needs to be more investment in social expenditure. The second issue is around priorities. Which areas should be prioritised in a context of limited state resources? This is a subject that requires further research, but the report does offer some pointers in this regard, highlighting the importance of better child care provision, for example. The third issue relates to strategies of provision. The report notes that preventive, universal approaches are now generally more appropriate than curative and targeted ones.

In its recent strategy statement NESC has again argued that the welfare 'system has left more inequality than is socially fair or economically desirable. More telling still, judged against a goal that has become increasingly central to Irish economic and social well-being – equality of opportunity – the system has not achieved what the Council believes to be necessary.'[27] The Council also notes that 'social exclusion cannot be further reduced if the quality of services is not greatly improved' (p.64) and that there is a 'historic opportunity to now guide the evolution of Ireland's social assistance and social insurance systems to align and converge into a truly developmental welfare state that secures social inclusion while respecting economic exigencies' (p.65). 'There should be more attention given to the overall pattern of distribution in income, state benefits, and tax expenditures, in order to ensure the creation of a more equal and inclusive society and the need to surmount two-tier systems' (p.106). This report provides empirical data and arguments that strongly support these positions.

The Combat Poverty Agency believes that in order to advance the fight on poverty it is necessary to reconceptualise the nature of the Irish welfare state. One approach would be to move closer to the Danish model of 'flexicurity', with a flexible labour market and a strong welfare state. This report through its context and analysis makes an important contribution to the debate about the future direction of the Irish welfare system.

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27 National Economic and Social Council, *An Investment in Quality: Services, Inclusion and Enterprise: Overview, Conclusions and Recommendations* (Dublin, NESC: 2002).

CHAPTER 1

INTRODUCTION – WHAT IS SOCIAL EXPENDITURE?

Social expenditure is a popular topic of debate and statistics relating to such expenditure are frequently discussed in newspapers and other media. However, these debates and statistics can give rise to a certain amount of confusion as the assumptions behind them are often not made clear. It may not be accurate, for example, to state that 'country A has higher social expenditure than country B, therefore it generates greater levels of well-being', or that 'the economy of country X has been growing very slowly because it spends too much on social protection', since the causal connections between the level of social expenditure and social well-being or economic growth are by no means automatic or straightforward.

This study seeks to present a clear definition of social expenditure and identify the ways in which social expenditure in Ireland differs from that in other advanced industrialised economies (EU member states and countries within the Organisation for Economic Co-operation and Development – OECD). Understanding social expenditure is vital for informed debate on the future shape of the Irish welfare state. No meaningful statements or recommendations can be made without understanding the basic mechanisms by which social expenditure is financed and distributed.

It is therefore hoped that this study will be useful for policy makers, analysts and general readers who have an interest in how social expenditure is used to redistribute resources in society. The study is of particular relevance at a time when, following a period of growth, the Irish economy and welfare state are entering a new stage during which more careful, and doubtlessly painful, choices will have to be made in the area of generating and spending revenue.

The OECD (2000) defines social expenditure as 'the provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances that adversely affect their welfare'. Most people think of social expenditure as cash payments (transfers), but social expenditure can also take the form of direct (in-kind) provision of goods and services. Social expenditure statistics vary in the number of social *services* that they take into account. Some statistics only measure *transfer* expenditure, whereas others take into account health spending, social care services spending and even the cost of public housing programmes and subsidies. Since only benefits provided by institutions are included in most statistics and definitions, transfers between households – even when they are of a social nature – are not. For instance, money spent by children who pay their parents' nursing home fees is not included in most measures of social expenditure.

In addition to transfer and service expenditure, there is a further significant form of social expenditure, called *tax expenditure*: this is revenue that the state has decided to forego in order to encourage private insurance or service provision. Thus there are three main categories of social spending: transfers, services and tax expenditures.

In sum, social expenditure consists of publicly and privately funded cash transfers (benefits), services (such as health care) and financial contributions (tax expenditure) that are designed to support recipients at times when they are affected by one or more social risk(s) such as old age, ill health, disability or unemployment. Some cash transfers are based on previous employment and contributions records – these are known as social insurance benefits. They are often largely financed by contributions from employees and employers (earnings-related benefits). Other benefits are based on need, rather than previous contributions. These are usually known as means-tested benefits because they are awarded only after an examination of the recipient's financial circumstances has established that he or she needs the benefit in order to cover basic living costs. These benefits, as well as universal benefits that are paid to everyone regardless of means or contributions (e.g. child benefit in Ireland), are usually funded through general tax revenue, rather than employee and employer social insurance contributions.

Expenditure on health and social services is funded in most European countries through general tax revenue, although earnings-related insurance schemes and user fees play a central role in some countries, particularly in Central Europe.

Table 1.1 Main types of transfer payments and their financing

Basis of entitlement	Type of transfer	Source of funding
Citizenship-based	Universal	General taxation
Employment-based	Earnings-related	Employee/employer contributions (sometimes also general taxation in part)
Needs-based	Means-tested	General taxation

Different countries and organisations have different understandings of what should be counted as social expenditure. Moreover, these definitions vary over time so that it is often difficult to find consistent longitudinal data on total social expenditure (services and transfers, public and private expenditure, pre-tax and post-tax etc.) in one country, let alone cross-national comparative data. In principle, measures of social expenditure could include expenditure on a very large range of public and private programmes such as education, community policing and transport, in addition to cash transfers and services such as health care, because all of these have an impact on people's welfare. Most measures of social expenditure, however, restrict themselves to transfer expenditure and health and social services, thus excluding areas such as education and housing. Nevertheless, great variations in data and definitions persist between different countries and periods of time. It is important to ensure that data on social expenditure are commensurable before using them for comparative purposes across time or across countries.

The OECD Social Expenditure Database, the most detailed comparative database in the area of social expenditure, groups expenditures with a social purpose as follows:

- old-age cash benefits
- disability cash benefits
- occupational injury and disease benefits
- sickness benefits
- services for the elderly and disabled
- survivors benefits
- family cash benefits
- family services
- active labour market policies, i.e. employment support
- unemployment compensation

- housing benefits
- public health expenditure
- other contingencies, e.g. benefits to those on low income.

This study will discuss in some detail five of the above expenditure categories, namely old-age cash benefits, family cash benefits, unemployment compensation, active labour market policies and public health expenditure.

Some statistics include tax expenditures that serve the purpose of providing protection against social risks. Tax expenditures are expenditures made through the tax system. Instead of giving money to individuals, as happens in the case of cash transfers, the state chooses to forego a certain amount of tax revenue in order to support or encourage individuals to make arrangements for their own social protection. Examples of tax expenditure are tax relief for pensions saving and tax relief for private medical insurance, both of which are in place in Ireland. Tax expenditure is an alternative to transfer payments, although the redistributive outcomes of the two may be very different (see 'The redistributive effects of social expenditure' in Chapter 4).

The net total social expenditure measure developed by Adema (2001) includes tax expenditures for social purposes, but this measure also takes into account the impact of direct and indirect taxation of benefit incomes. This is significant because many governments claw back some social expenditure by taxing benefits directly and/or indirectly through taxes on goods and services that benefits are used to purchase.

The role of direct and indirect taxes and social contributions varies considerably between countries. For instance in 1995 income tax and social contributions paid by benefit recipients amounted to 5-6 per cent of GDP in Denmark, the Netherlands and Sweden, whereas such taxes were less than 0.5 per cent of GDP in Australia, Ireland, the UK and the US (OECD 1999a: 30). The full meaning and significance of using net instead of gross social expenditure figures will be elaborated on below in the section 'Gross vs. net social expenditure' and in Chapter 3, 'Cross-national analysis of social expenditure'.

In summary, it is important to take note of the following factors when analysing and comparing statistics related to social expenditure:

First, social spending statistics are not always comparable as they are based on different definitions of social expenditure. Care is therefore required in comparing across different databases and statistics collected by different organisations. A number of different statistics and databases are utilised in this report, as it is not possible to obtain comparable statistics on total social expenditure covering a long period of time for both Ireland and a selection of other OECD countries.

Second, social expenditure varies according to whether we take into account the impact of tax expenditure and the tax treatment of social transfers.

GROSS VS. NET SOCIAL EXPENDITURE

This section outlines in more detail the difference between gross and net social expenditure. Most statistics and analyses of social expenditure are restricted to gross public social expenditure, i.e. public social expenditure before the impact of taxes is taken into account. Limitations of data and difficulties of data collection mean that this is often the only reasonably reliable measure of social effort available. However, while aggregate (or gross) social expenditure expressed as a percentage of gross domestic product (GDP) or gross national product (GNP) is a useful and revealing indicator of the extent of social expenditure in a country, it can also be misleading for a number of reasons.

First, direct (income) taxes and social security contributions diminish the amount of money that is at the disposal of benefit recipients. This 'clawing back' of resources allocated to social expenditure obviously has implications for the actual level of social effort and redistribution. The extent to which taxes and social security contributions are levied on benefit recipients varies considerably between countries: whereas they are rather heavy in the Nordic countries and the Netherlands, they are very light in Australia, Germany, the UK, the US and Ireland. Differences in direct taxes paid by benefit recipients reflect the scale of social expenditure (how much is spent in total), the extent to which these payments are targeted to those on low incomes, and the extent to which benefits are exempt from tax.

Second, there is great variation in the amount of benefit income that is 'clawed back' through indirect taxes on consumption. The difference is particularly notable between the US and most European countries. Benefit recipients use their income to purchase goods and services, most of which are subject to indirect taxes such as VAT. This tax flows back to the Exchequer and therefore should be deducted from gross spending in order to obtain a more accurate picture of resources that are in fact being spent on social protection. In practice, however, most social expenditure statistics do not take into account indirect taxes such as value-added tax (VAT).

Third, tax breaks for social purposes are usually not taken into account in aggregate or even programme-level expenditure figures. Some fiscal measures can be seen as cash benefit replacements: child tax allowances for families with children are an example of such tax breaks. Other measures stimulate the provision of private benefits: for example, tax advantages for companies that provide private child care or nursing homes for older people. While such 'social tax expenditure' varies a lot in scope between countries, it plays a significant role in a number of countries. For instance, tax breaks towards employment-based health insurance in the US amounted to almost 1 per cent of GDP in 1995. Tax breaks for social purposes tend to be non-existent or play a very small role in countries that rely on a high level of direct taxes to fund social expenditure. Usually the value of tax allowances for social purposes is smaller than the amount of benefit income clawed back through direct and indirect taxes. As a result, net public social expenditure tends to be lower than gross spending indicators.

Fourth, private social expenditure, whether subsidised through tax breaks or not, can account for a considerable share of net total social expenditure in a country. However, most social spending in OECD countries is public. The UK and the Netherlands are the only exceptions to the rule that over 90 per cent of social expenditure in the European OECD countries is public.[1] Private social spending exceeds one-third of all social expenditure in the US. To be considered as part of social expenditure, private programmes have to serve a social purpose and contain an element of inter-personal redistribution. For instance, a private pension or a life insurance policy that entitles the recipient to benefits strictly in accordance with the amount and timing of payments made, would not be considered 'social'. However, a compulsory or a voluntary company scheme (in health insurance, pensions etc) that involved risk-sharing and redistribution from low-risk or high-earning groups to high-risk or low-earnings groups would be considered social. For the most part, individual insurance arrangements do not fit the definition of 'social' because their cost to the individual is based on market prices and on his or her risk-profile. However, public intervention sometimes introduces elements of risk- and cost-sharing through fiscal measures or legal requirements, for

1 However, private expenditure tends to play a more important role in the area of services, and of health services in particular. For instance, nearly 23 per cent of total health expenditure in Ireland was private expenditure in 1996 (Department of Health and Children 1999: 223).

instance, which means that the programme can be counted as private social expenditure (Adema 2001: 9). It is very difficult, however, to obtain reliable data on total private social expenditure.

In light of the limitations of focusing on gross public social expenditure, two indicators have been developed that aim to measure how much governments in fact spend on social protection (*net public social expenditure*) and what proportion of the economy's domestic production is spent on public and private social protection (*net total social expenditure*). These indicators capture the impact on social effort of both private expenditure and the tax system. However, limitations of (comparable) data mean that analysis of all OECD countries in the light of these indicators is not possible (for more detailed definitions and analysis see Chapter 3 'Cross-national analysis of social expenditure').

WHAT INFLUENCES THE LEVEL OF SOCIAL EXPENDITURE?

Having established the meaning of social expenditure, we will now outline some of the factors that influence its level. As will be illustrated below, regardless of the measure used, levels of social expenditure vary a great deal between countries and periods of time. Differences between social expenditure levels reflect not only differences in social protection systems, but also variation in demographics, levels of unemployment and a range of other social and economic factors.

It is important to note, as Maguire (1984: 77) points out, that 'changes in income maintenance expenditures may result from a variety of influences, some of a purely *automatic* nature (e.g. demographic trends) and some of a *discretionary* nature (e.g. extension of the coverage of programmes)' (my emphasis). In her article, Maguire examines the contribution to expenditure growth of changes in demographic structure, eligibility for benefits, and average transfer payments per beneficiary. She is interested in the extent to which expenditure growth is the result of demographic changes such as population ageing, or of extension (or reduction) in the number of people eligible for benefits, or of changes in the level of benefits. Obviously, it is of interest to know whether social expenditure increases because of population ageing ('automatic' expansion as people reach the age at which they are entitled to pensions), or because of deliberate decisions to change the level of benefits. In the former case, no political action is required, although political action can obviously play a role in shaping demographics in the long term; in the latter case, an act of political will is necessary to bring about an increase or a decrease in expenditure. In the case of pensions, Maguire established that the increase in expenditure in Ireland between 1951-1979 was not due to demographic change as the over-65 population remained very stable during this period, but rather it was due to an increase in the proportion of older people receiving pensions (extension of eligibility) and to increases in pensions (1984: 78).

A large number of demographic, economic and social factors can influence the level of social expenditure. Table 1.2 and the discussion below outline some of these factors. It is important to bear in mind that these factors do not inevitably lead to an increase or a decrease in social expenditure. For instance, even if expenditure on pensions increases as the number of eligible older people increases, it is still possible, by political means, to curtail that increase in expenditure.

Table 1.2 Demographic, economic and social influences on social expenditure

Demographic	Economic	Social
Proportion of older people	Level of unemployment	Household size
Proportion of children	Employment rate	Family structure
Proportion of students	Economic growth	Take-up rate of benefits
Proportion of immigrants		Information on benefits

Demographic trends are of particular significance for the composition of social expenditure in Ireland (see Fahey and FitzGerald 1997). Due to the relatively low proportion of older people in the Irish population, pensions expenditure in Ireland has been relatively low – although, as will be shown below, expenditure on old age nonetheless forms the largest single category of social welfare spending. Old people also tend to be the biggest consumers of health care services and an increase in the number of old people in the population is therefore likely to lead to increased health expenditure. Ireland's relatively young population structure goes some way towards explaining the low level of social expenditure in Ireland, but is only one of the factors that have contributed to the decline of social expenditure as a proportion of national wealth over the last decade.

The proportion of children in the population can also influence social expenditure because, like older people, children are to a greater extent than working-age adults dependent on social transfers such as child benefits, and on services such as education and child care. The proportion of students in the population can have a similar impact, as most students do not work full-time, but this impact depends very much on the number and generosity of benefits that students are entitled to, and neither are very significant in Ireland. The proportion of immigrants can also affect the level of social expenditure, although this depends very much on the social and employment rights of immigrants, as well as on their age profile.

A variety of economic factors influence the level and rate of growth of social expenditure. When combined with political will, economic growth has historically tended to increase social expenditure. The three post-war decades comprised a period of strong economic growth and welfare state expansion in industrialised countries. Countries that are 'catching-up' often have faster levels of growth in aggregate social expenditure. Spain in the 1980s is a good example of this phenomenon. Rising unemployment tends to create a dual pressure on public finances as tax revenue decreases and social transfers increase simultaneously, leading to an increase in aggregate social expenditure and possibly to an increase in the social expenditure/GDP ratio. Economic growth and decreased unemployment can lead to diminishing social expenditure as fewer people are in need of transfers such as unemployment benefits, and as increased income from work pushes people above the income limits for certain benefits. However, it is important to note that these tendencies are not 'laws of nature'. Whereas economic growth may in one country lead to higher levels of social protection, it may not have the same result in another. It is also crucial to understand the difference between aggregate expenditure and expenditure measured as a percentage of the national wealth: even when the former increases, the latter can decrease if economic growth is faster than the growth in aggregate expenditure.

A large number of social factors can influence the need for social transfers and, therefore, the aggregate level of social expenditure. In general, one-person households have lower median equivalised incomes than households consisting of two or more persons (European Commission/Eurostat 2000a: 30). This means that one-person households tend to be in greater need of, and more likely to qualify for, income transfers targeted at low-income individuals. Similarly, the incomes of lone parents in most countries are lower than those of married or co-habiting parents. For these reasons, an increase in one-person households and lone parent families creates a greater need for redistribution, although this does not mean that additional or more extensive redistributive policies will come into existence – this requires an act of political will. Take-up rates of benefits also influence the level of expenditure. Lack of information, inaccurate information, or stigmatisation of benefit recipients can reduce the number of benefit claimants to a lower level than would otherwise prevail.

In summary, a large number of demographic, economic and social factors, besides political will, can and do affect the level of social expenditure. However, the most important influences on contemporary social expenditure patterns have been unemployment, economic growth and catch-up from prior expenditure levels (Castles 2001a).

CHAPTER 2

SOCIAL EXPENDITURE IN IRELAND 1960-2000 – HISTORICAL DEVELOPMENT OF INVESTMENT IN SOCIAL PROTECTION

This chapter examines the historical evolution of social protection expenditure in Ireland. Table 2.1 outlines the rapid increase in public social expenditure in Ireland from the early 1950s to the late 1970s. The GDP share of social expenditure grew by more than ten percentage points during these three decades, and the income transfers/GDP ratio more than doubled. (Note that this table includes expenditure on education and housing, not included in most statistics on social expenditure.) The purpose of presenting this table is to illustrate the rapid growth of the welfare state during the three post-war decades, a development that Ireland shared alongside most other Western countries.

Table 2.1 Public social expenditure in Ireland, percentage of GDP

Year	Total social expenditure	Income maintenance	Health	Education	Housing
1951	15.9	4.6	3.3	3.1	4.8
1970	19.8	7.6	4.5	5.2	2.5
1979	26.5	9.6	7.3	6.3	3.3

Source: Maguire 1984: 76. Total social expenditure here refers to expenditure of public authorities on health, education, housing, social security and welfare – this definition is considerably broader than those utilised in most other data sources. Income maintenance refers to transfer payments.
(Based on data from the Central Statistics Office.)

Table 2.2 illustrates how social security transfers as a share of GDP increased rapidly in Ireland in the 1960s and 1970s (although remaining below the EU average), then stagnated at a relatively high level in the 1980s before falling to a lower level in the course of the late 1980s and the 1990s. Note that unlike Table 2.1, the percentages in this table contain only transfer (cash benefit) expenditure, and *exclude* service expenditure such as health and housing.

The table also illustrates the steady upward trend in the percentage of national wealth devoted to social security transfers in developed (OECD) countries during the post-war years, with the 1960s and 1970s in particular being the 'golden decades' of welfare state growth. There are some exceptions to this trend as a number of late-comers only caught up with the rest in the 1980s: Spain and the other Mediterranean EU member states are good examples of this delayed expansion.

Most strikingly, Ireland is the only significant exception among most other OECD countries to the fact that social security/GDP ratio ('welfare effort') expanded between the mid-1980s and the mid-1990s. In other words, while welfare effort increased in most other OECD countries, in Ireland it decreased from the mid-1980s. During this period, Ireland was converging with the US, and diverging from the EU average.

Table 2.2 Social security transfers, percentage of GDP

	1960	1974	1986	1989	1994	1999
Ireland	**5.5**	**11.4**	**17.2**	**14.2**	**12.1**	**9.6**
US	5.1	9.6	10.8	10.6	12.8	12.6*
Germany	12.0	14.6	15.9	15.7	18.2	18.9
UK	6.8	9.2	13.6	11.2	15.4	13.5
Spain	2.3	9.5	15.6	15.4	18.0	17.2*
Sweden	8.0	14.3	18.3	19.4	24.8	18.9
EU-15	9.7	13.3	17.6	16.9	19.7	16.8
Total OECD	6.9	0.6	13.5	13.2	15.5	14.2*

Source: OECD Historical Statistics 1997a, p. 71. OECD Historical Statistics 2001a, p. 67.

* Data for US are for 1996, Spain for 1995, and total OECD for 1998 (most recent figures available).

Table 2.3 illustrates the relative stagnation in social protection expenditure in Ireland during the 1980s: the expenditure/GDP ratio increased towards the middle of the decade – largely due to increasing unemployment – before falling again as a result of severe cuts in public expenditure in the late 1980s. This table presents information on the proportion of national wealth allocated to social expenditure. It does not indicate whether aggregate expenditure increased or decreased. In fact, social expenditure increased considerably during the 1980s (Ó Riain and O'Connell 2000) but poor economic performance meant that the need and demand for social protection also grew. Expenditure on health relative to GDP declined during this period, while expenditure on the aged remained very stable, and expenditure on the non-aged increased – much of this increase being due to unemployment.

Table 2.3 Public social protection expenditure in Ireland, percentage of GDP

Year	Total	Health	Aged	Non-aged
1980	19.9	8.0	6.2	5.7
1981	20.4	7.7	6.4	6.3
1982	21.9	7.5	6.8	7.5
1983	22.7	7.4	6.9	8.3
1984	22.1	7.0	6.8	8.3
1985	22.3	7.0	6.7	8.6
1986	22.4	6.9	6.7	8.9
1987	21.7	6.5	6.6	8.6
1988	20.4	5.9	6.3	8.1

Source: OECD (1996) Economies at a Glance: Social Indicators, p. 108.

It is clear from Tables 2.4 and 2.5 that in aggregate, or gross, terms, social expenditure in Ireland grew significantly in the 1990s. Whereas total social welfare expenditure was just over IR£3 billion (€3.81 billion) in 1991, it amounted to almost IR£5.3 billion (€6.73 billion) in 2000 (note that Table 2.5 refers only to cash benefit expenditure, i.e. it excludes expenditure on services). Table 2.4 shows that, with the exception of Portugal, the rate of social expenditure growth in Ireland in the 1990s was faster than in any other EU member state.

Table 2.4 Expenditure on social protection per capita at constant prices (index 1990 = 100)

	1990	1993	1996	1997	1998	1999
EU-15	100	113	118	119	121	124
Belgium	100	115	117	118	122	125
Denmark	100	113	122	121	122	123
Germany	100	104	114	112	114	117
Greece	100	96	104	111	120	130
Spain	100	124	122	123	125	127
France	100	110	114	115	118	120
Ireland	**100**	**119**	**130**	**137**	**142**	**150**
Italy	100	108	108	113	113	116
Luxembourg	100	120	135	138	141	149
Netherlands	100	104	102	103	103	105
Austria	100	110	118	118	120	125
Portugal	100	144	163	174	189	201
Finland	100	116	122	120	120	120
Sweden	100	108	106	106	110	113
UK	100	129	136	136	136	139

Source: Eurostat 2002.

Although social expenditure in the 1990s has grown briskly in real terms (substantially faster than consumer prices), its share of Irish GDP/GNP has fallen (see the last two columns of Table 2.5). This is due to the fact that increases in social expenditure have not kept pace with economic growth. In comparison with most other EU countries, both general government total outlays and social expenditure as a proportion of GDP/GNP are very low in Ireland. Indeed, as will be shown below, the level of public and social expenditure in Ireland is now closer to the US than to EU levels (Ó Riain and O'Connell 2000: 310). Note that, although most comparative statistics express social expenditure as a share of GDP, using GNP as a baseline is useful in the case of Ireland as a considerable share of wealth created in the country is repatriated by foreign multinational companies.

Table 2.5 Social welfare expenditure in Ireland, 1991-2000

Year	Index of expenditure	Consumer price index	Social welfare expenditure as a percentage of	
			GNP	**GDP**
1991	100.0	100.0	11.7	10.4
1992	111.0	103.1	12.3	10.9
1993	117.3	104.6	11.9	10.7
1994	121.6	107.0	11.4	10.3
1995	135.8	109.8	11.4	10.1
1996	141.6	111.6	10.8	9.6
1997	146.3	113.2	9.7	8.6
1998	154.0	115.9	9.0	7.9
1999	160.0	117.9	8.4	7.2
2000	171.0	124.5	7.8	6.6

Source: Department of Social, Community and Family Affairs (2001) *Statistical Information on Social Welfare Services 2000,* Section A, p. 3.

STRUCTURE OF SOCIAL SPENDING IN IRELAND

In addition to examining social expenditure in Ireland (both historically and in comparison with other OECD countries), analysis of expenditure in selected key areas is essential if we are to gain a full understanding of the extent and nature of social spending in Ireland. Longitudinal examination of social spending broken down by expenditure areas may also reveal important shifts in the pattern of expenditure. In most countries, pensions and health are the two areas where the bulk of social expenditure is concentrated. While pensions expenditure in Ireland is comparatively low, due to the country's demographic profile and the low level of pensions, it nonetheless constitutes the single largest share of total social welfare expenditure (see Table 2.6) and has a significant impact on reducing inequalities.

Expenditure on unemployment and employment supports (the latter are often referred to as active labour market policies) will also be analysed separately. The change in this area was dramatic in the 1990s and the drop in unemployment expenditure has arguably been one of the main driving forces in the growth of other expenditure categories, as well as one of the reasons for the decline in social expenditure as a proportion of GDP/GNP. The fact that unemployment and employment supports are now analysed separately in the annual statistical report of the Department of Social and Family Affairs reflects the emphasis on activation in recent years.

Child-related expenditure will be briefly discussed as this has been an important policy priority in recent years.

Table 2.6 Percentage expenditure on social welfare by programme, 1990 and 2000

Expenditure category	1990		2000
Old age Old-Age (Contributory) Pension, Retirement Pension, Old Age and Blind (Non-Contrib.) Pension, Pre-Retirement Allowance, Free Schemes	30.1	**Old age** Incl. Old Age Contrib. and Non-Contrib. Pension, Retirement Pension and Pre-Retirement Allowance	25.4
Family income support Widow's Pensions (Contrib. and Non-Contrib.), Deserted Wife's Benefit and Allowance, Lone Parent's Allowance, Prisoner's Wife's Allowance, Orphan's Allowance (Contrib. and Non-Contrib.), Child Benefit, Maternity Allowances, Family Income Supplement, Supplementary Welfare Allowance, Carer's Allowance	26.3	**Widows, widowers and one-parent families** Incl. Widow/er's Contrib. and Non-Contrib. Pension, Deserted Wife's Allowance and Benefit, Prisoner's Wife's Allowance, One Parent Family Payment	18.9
Unemployment Unemployment Benefit and Assistance, Pay-Related Benefit Payable with Unemployment Benefit, Special schemes for the unemployed	25.4	**Unemployment supports** Unemployment Benefit and Assistance	10.9

Expenditure category	1990		2000
Illness Disability Benefit, Pay-Related Benefit payable with Disability Benefit and Injury Benefit, Invalidity Pension, Occupational Injuries Benefit, Free Schemes	12.5	**Illness, disability and caring** Incl. Disability Benefit, Invalidity Pension, Injury Benefit, Disablement Benefit, Death Benefit, Disability Allowance, Medical care, Carer's Allowance, Blind Person's Pension	15.6
Administration	4.8	**Administration**	4.8
Miscellaneous Single Woman's Allowance, Rent Allowance, Death Grant, Treatment Benefit, National Fuel Scheme, School Meals	0.9	**Misc. payments and grants** Treatment benefits, Rent Allowance, Free Schemes etc.	5.2
		Supplementary welfare allowance	4.4
		Employment supports Family Income Supplement, Employment support services (Back to Work Allowance, Back to Education Allowance, Back to Work Enterprise Allowance, Students' Summer Jobs scheme, Part-Time Job Incentive scheme), Farm Assist	4.2

Source: Department of Social Welfare 1991: 3, and Department of Social, Community and Family Affairs 2001: 2. Categories of expenditure were changed between 1990 and 2000.

It is important also to note the proportion of social expenditure spent on means-tested benefits. As indicated above, there are, broadly speaking, three types of cash benefit: universal, earnings-related and means-tested.

- *Universal* benefits are paid to all citizens/residents of the country belonging to a certain pre-defined group such as children, pensioners, unemployed people etc: they all receive the same payment by virtue of their membership in that group.

- *Earnings-related* benefits are paid to all those who fulfil the qualifying condition and the working condition attached to the benefit. In other words, earnings-related benefits are conditional on being affected by a social risk such as old age or retirement, and on having contributed towards the benefit while working. Earnings-related benefits are sometimes flat-rate, i.e. the same amount is paid to everyone (e.g. in Ireland), but in many countries the level varies according to the size and duration of contributions so that for instance the longer one's working career and the larger one's contributions, the larger the benefit (e.g. pension).
- *Means-tested* benefits are paid to those who fulfil the (usually) stringent conditions related to need and income level: they are intended to prevent extreme forms of poverty by giving the bare minimum to those whose market income falls below the poverty line, however defined.

Means-tested benefits are common and constitute a large proportion of social expenditure in countries that belong to the liberal model of social protection. In this model, emphasis is placed on the duty of individuals and families to take care of their social protection needs through private insurances, informal help and other means such as savings. State intervention is targeted at those who lack the necessary means to cover for their social risks. Once it is established that their means fall below a certain minimum level, they are entitled to safety-net assistance from the state.

Table 2.7 reveals that expenditure on social benefits increased briskly during the 1990s in Ireland, at roughly a third. Nonetheless, only some 10 per cent of social benefit expenditure in the EU (average for 15 member states) was means-tested in 1998 (European Commission/ Eurostat 2000b: 29).

Table 2.7 Expenditure on means-tested and non-means-tested social benefits in Ireland, 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Social benefits, millions of IR£	5102	5612	6177	6682	7104	7790	8082	8694	9293
Non-means-tested (%)	68.1	67.5	66.3	65.9	65.0	65.9	65.6	67.0	68.3
Means-tested (%)	31.9	32.5	33.7	34.1	35.0	34.1	34.4	33.0	31.7

Source: European Commission/Eurostat 2000b, p. 39.

According to Esping-Andersen (1999: 75), the relative weight of means-tested benefits compared to earnings-related and universal benefits constitutes a good indicator of the 'liberalism' of a social protection system. In the light of this measure, the Irish welfare state is very liberal. It can be argued that means-tested benefits are very expensive to administer because they require time-consuming investigation of the recipient's circumstances. It can also be argued that means-tested benefits create work disincentives in a way that universal and earnings-related benefits do not. Earnings-related benefits in fact create work incentives because rights to benefits are given on the basis of employment history and contributions. Lessening the emphasis on means-testing would have a number of advantages, namely quicker and easier administration and increased work incentives. Another problem with means-testing is the periodic need to increase the qualifying income limits in accordance with price or wage increases. This is often neglected with the result that fewer and fewer people qualify for the payments.

A significant portion of means-tested social expenditure in Ireland takes the form of qualified adult allowances and child dependant allowances. It is questionable whether these expenditures should be continued in their present form, given that they rely on an out-dated model of women's labour market participation and create poverty traps for social welfare recipients.

The relative weight of services (benefits in kind) and income transfers (cash benefits) is also an important indicator of the nature of the welfare state. The Nordic countries tend to be relatively 'service heavy' in that they spend a larger share of their social expenditure budgets on services than most other countries. In this respect, too, the Irish welfare state is a liberal or residual one. Expenditure on services is among the lowest in the EU and some 2 percentage points below the EU average (see Table 2.8). Increased investment in services would be needed in order to respond to, among other things, the reduced capacity of families, i.e. women who are increasingly employed outside the home, and to provide free care services to young, disabled and elderly members of their families (Timonen and McMenamin 2002).

Table 2.8 Social benefits as a percentage of GDP, 1998

	Old-age pensions	Benefits in kind	Other cash benefits	Total benefits
EU-15	12.6	8.3	5.8	26.6
Belgium	12.1	6.7	8.1	26.9
Denmark	10.9	10.9	7.2	29.1
Germany	12.9	8.6	6.7	28.2
Greece	12.5	7.5	3.7	23.7
Spain	10.7	6.1	4.3	21.0
France	13.3	9.7	5.9	28.9
Ireland	**4.1**	**6.2**	**5.0**	**15.3**
Italy	14.7	5.5	4.1	24.3
Luxembourg	12.1	6.4	4.7	23.2
Netherlands	13.3	7.9	5.7	26.8
Austria	14.1	8.1	5.3	27.5
Portugal	10.6	7.4	2.5	20.4
Finland	11.2	8.6	6.5	26.4
Sweden	12.5	13.3	6.8	32.6
United Kingdom	10.8	9.1	6.0	26.0

Benefits in kind: in-patient and out-patient care, accommodation for old and disabled people, day centres etc.
Source: Eurostat 2001.

It is clear from the above discussion, and from recent debates on issues such as health care, child care and care for people with disabilities, that a reassessment of public service spending in Ireland is needed. Before such re-assessment is possible, however, data are required on the nature and extent of public service spending in the country. As has been highlighted above, no such data exist at present. Public service expenditure needs to be systematically collated. It then needs to be broken down by category of spending, e.g. health, care services for children, care services for older people, etc. Within these categories, a further break-down by the nature of expenditure, e.g. capital investments, wages, other running costs, etc is required. In other words, comprehensive data on the 'service state' in Ireland are needed before re-allocation decisions are made. Such data would also enable comparisons over time, e.g. How much has expenditure increased? Has the bulk of the increase taken place through wage increases?

Public funding of services has traditionally been relatively low in Ireland. Arguably social spending on services such as health and education is of great significance for equalising life chances and employment potential, as well as for the economic competitiveness of a country. Consequently, expenditure on services, whether direct or indirect (in the form of tax reliefs), should be aimed at minimising the inequalities that exist in health and education outcomes between different socio-economic groups. At present, the Irish social expenditure system is not as well geared towards achieving this aim as it should be. Expenditure on services is an area in which major changes are both necessary and politically possible.

This section of the study concludes with the following brief summary of the main characteristics of social spending in Ireland: Irish social expenditure increased in real terms throughout the 1990s, and continues to increase. The increase for 2000 was 6.9 per cent over 1999 (Department of Social, Community and Family Affairs, 2001: 2). However, the proportion of GNP/GDP devoted to social expenditure has been decreasing, and the Irish welfare state continues to exhibit the defining characteristics of the residual, or liberal, welfare state model. Many 'old' features – support for family carers, predominance of means-tested payments, relatively low, flat-rate social insurance payments – continue to exist and in some cases have been reinforced recently. While some 'new' elements – improved universal benefits, statement of intention to link benefit increases to wages and inflation, lessening of means-testing, increasing qualified adult allowances – have been introduced, the Irish welfare state still remains focused on poverty prevention and is weak in the area of service provision. This is reflected in the allocation of social expenditure between cash transfers and services: Ireland spends a comparatively low proportion of its total net social expenditure on services.

We will now turn to a more detailed examination of social spending in Ireland, focusing on old age, health, unemployment and children.

Expenditure by function: old age, health, unemployment and children

Old age

In 1997, on average across the OECD countries, 58 per cent of all cash benefit expenditure was dedicated to old-age cash benefits and survivors' benefits (OECD 2000). In most OECD countries, public pension spending exceeds spending on the working-age population: the exceptions to this are Australia, Ireland, the Netherlands, New Zealand and the Nordic countries (Adema 2001: 8).

As in most other countries, expenditure on 'old age' forms the single largest area of social welfare expenditure in Ireland. In 2000, over one quarter of all social welfare expenditure was related to old age (Department of Social, Community and Family Affairs 2001: 2). Aggregate expenditure on old age has increased considerably in Ireland in the 1990s, but the GDP share of old-age expenditure has decreased (see Table 2.9). This is in accordance with the overall pattern that we identified above. The table shows that the difference in old-age spending is striking between Ireland and the rest of the EU. No other EU country comes anywhere close to Ireland's low expenditure/GDP ratio in this area.

Table 2.9 Expenditure on old age, 1980-1998, percentage of GDP

Country	1980	1990	1993	1994	1995	1996	1997	1998
Belgium	6.7	7.6	8.7	8.6	8.6	8.6	8.4*	8.2*
Denmark	9.5	10.2	10.7	11.8	11.8	11.9	11.7	11.2
Germany	10.8	10.6	10.8	10.9	11.3	11.4	11.4*	11.4*
Greece	..	9.3	9.0	8.9	9.2	9.5	9.8	10.4*
Spain	6.2	7.6	8.7	8.7	8.8	9.0	9.0*	8.8*
France	8.1	9.5	10.5	10.4	10.8	11.0	11.0	11.0*
Ireland	**4.7**	**4.2**	**4.2**	**4.1**	**3.7**	**3.3**	**3.1**	**2.9**
Italy	8.3	11.3	12.7	13.1	12.3	12.6	13.1	13.0*
Luxembourg	8.0	9.1	9.8	9.6	9.9	9.7	9.6	9.2
Netherlands	7.5	9.9	10.1	9.7	9.5	9.6	9.6*	9.6*
Austria	9.0	10.0	10.5	10.8	10.9	10.9	10.6	10.4
Portugal	3.7	4.8	6.1	6.2	6.8	7.1	7.0	7.2*
Finland	6.0	7.2	9.5	9.2	8.9	9.2	8.5	8.0*
Sweden	..	..	13.0	12.6	12.0	12.4	12.3	12.1

Country	**1980**	**1990**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
UK	..	9.0	10.5	10.4	10.3	10.5	10.6	10.4*
EU	..	..	10.7	10.7	10.7	10.9	10.9*	10.8*

* = Estimated or provisional data.
Sources: European Commission/Eurostat 2000b, p. 86 and Statistics Sweden 2001, p. 23.

Between 1991 and 2000, the number of recipients of Old Age Contributory Pension rose by 13,453 whereas the number of recipients of Old Age (Non-Contributory) Pensions fell by 25,298 (Department of Social, Community and Family Affairs 2001: 22). This shift from non-contributory to contributory pensions is a sign of the fact that more and more retirees have a work history and are therefore entitled to insurance-based pensions which are slightly higher than social assistance pensions. In this way, a change in the number of people entitled to a benefit can in itself bring about an increase in social expenditure without any benefit increases taking place (although in the case of pensions there have been several increases). This is sometimes referred to in the literature on welfare states as 'maturation' of social programmes. Table 2.10 illustrates the shift away from non-contributory and towards contributory pensions expenditure.

Table 2.10 Expenditure on old age by pension type

Year	**Contributory Percentage**	**Non-contributory Percentage**	**Total (€ millions)**
1991	59.5	40.5	1054
1995	62.0	38.0	1223
2000	69.0	31.0	1707

Source: Department of Social, Community and Family Affairs 2001: 23.

Ireland's low social expenditure is partly a result of its low old-age dependency. However, the exclusion of this category of expenditure still leaves Irish expenditure below the EU average, although higher than spending in Spain, Italy and Greece when expenditure is calculated in GDP terms, and in Portugal when Irish expenditure is calculated as a percentage of GNP (O'Connor 2002) (see Table 2.11).

Table 2.11 European Union countries: social protection expenditure as a percentage of GDP

Country	1997 Total social protection expenditure	1997 Excluding expenditure on old age and survivors	1998 Total social protection expenditure	1998 Excluding expenditure on old age and survivors
EU-15	28.1	15.4	27.7	15.0
Belgium	28.1	16.0	27.5	15.7
France	30.8	17.4	30.5	17.1
Germany	29.5	17.2	29.3	16.9
Italy	25.7	9.0	25.2	9.1
Luxembourg	24.8	14.0	24.1	13.4
Netherlands	29.4	18.3	28.5	16.8
Denmark	30.5	18.5	30.0	18.5
Ireland GDP	**17.2**	**12.9**	**16.1**	**12.1**
GNP	**19.3**	**14.5**	**18.1**	**13.6**
United Kingdom	27.3	16.2	26.8	15.0
Greece	23.6	11.5	24.5	11.6
Portugal	22.5	12.9	23.4	13.4
Spain	22.0	10.7	21.6	11.6
Austria	28.8	15.0	28.4	14.7
Finland	29.3	19.4	27.2	17.8
Sweden	33.6	20.3	33.3	20.2

Source: O'Connor 2002.

As was pointed out above, tax expenditure plays an important role in a number of countries, including Ireland. 'Tax expenditure' is expenditure made through the tax system and the concept highlights the fact that the tax system can be used to achieve goals similar to those of public spending programmes. Accounting for the costs and benefits of tax measures is often very difficult because of the absence of reliable statistical data. Tax breaks towards pensions are comparatively high in Ireland. In 1997, tax breaks towards pensions amounted to 2.4 per cent of GDP in Ireland. Other high spenders in this category were Canada, Australia and the United Kingdom (Adema 2001: 23). In all of these countries, the high level of tax breaks towards pensions provision is a result of the very low level of public pensions.

Hughes (2001) compared the trend in the cost of tax expenditure on occupational pensions with the trend in the cost of direct expenditure on social welfare pensions in Ireland. He demonstrated that the cost of tax expenditure grew from approximately 10 per cent of the cost of social welfare pensions in 1980 to around 66 per cent in 1997 (see Table 2.12). The amount of Exchequer support for the average participant in an occupational scheme rose from one quarter to more than one-and-a-half times the Exchequer expenditure on the average participant in a social insurance scheme. Whereas in the tax year of 1980/81 the cost of tax reliefs on employee and employer contributions and on the net income of superannuation funds was 0.33 per cent of GNP, by 1997/98 this had risen to 1.42 per cent (Hughes 2001: 7). Interestingly, this was at a time when the proportion of GNP/GDP devoted to most forms of direct social welfare expenditure was decreasing.

Table 2.12 Direct expenditure and tax expenditure on state and occupational pensions, € millions

	Direct expenditure on contributory old age pension and retirement pension	Direct expenditure on non-contributory old age pension	Total direct expenditure on state pensions	Tax expenditure on occ. pension schemes	Tax expenditure on occ. pensions as percentage of direct exp. on state pensions
1980	194.3	178.0	372.3	38.1	**10.2**
1985	446.6	347.3	793.8	67.3	**8.5**
1990	590.3	382.8	973.1	254.0	**26.1**
1995	758.3	392.1	1150.4	506.6	**44.0**
1997	839.6	402.3	1241.8	822.8	**66.3**

Source: Hughes 2001: 11.

Most of the benefit of tax expenditure on occupational pensions is concentrated at the upper end of the income distribution. The ESRI Living in Ireland survey (Callan et al. 1994) shows that the coverage of occupational pension schemes is virtually complete for the highest three income deciles. However, only 10-35 per cent of employees in the second, third and fourth deciles have coverage, and there is virtually no coverage for the lowest income decile. This is a good illustration of the 'upside-down' nature of tax expenditure (Hughes 2001: 15).

Health

The decade of the 1980s was a period of contraction in health spending in Ireland. Between 1980 and 1989, gross non-capital health expenditure increased by 95 per cent in nominal terms, but in constant terms (at 1995 prices) health expenditure declined by 7 per cent during this period. Between 1990 and 2000, however, health expenditure increased by 180 per cent in current terms and by 79 per cent in constant terms (Wiley 2001: 69).

As can be seen from Table 2.13, health expenditure varies considerably between OECD countries. It is important to note that high health expenditure is not necessarily the result of extensive public services. The United States, where the private health care sector plays an important role, has one of the highest health expenditure/GDP ratios in the world. US health expenditure is significantly higher than in many countries where the system of financing and providing health care is public, and where health outcomes are more equal. In other words, there is no necessary or automatic connection between the health care system and its cost: some largely privatised systems are very expensive, and others that are funded through tax revenue are relatively cheap. High cost of health care does not necessarily translate to equal access to health care. In fact, the United States, with its very expensive health care system, produces very unequal access to health care.

Table 2.13 Total expenditure on health, percentage of GDP

Country	1960	1965	1970	1975	1980	1985	1990	1995	1998
Ireland	**3.6**	**4.0**	**5.1**	**7.4**	**8.4**	**7.6**	**6.7**	**7.3**	**6.8**
Germany	4.8	5.1	6.3	8.8	8.8	9.3	8.7	10.2	10.3
Spain	1.5	2.5	3.6	4.7	5.4	5.4	6.6	7.0	7.0
Sweden	4.5	5.3	6.9	7.6	9.1	8.7	8.5	8.4	7.9
UK	3.9	4.1	4.5	5.5	5.6	5.9	6.0	7.0	6.8
US	5.1	5.6	6.9	7.8	8.7	10.0	11.9	13.2	12.9

Source: OECD Health Data 2001b.

In the case of health expenditure – and indeed all public service expenditure – it must be noted that labour costs form a significant share of total expenditure. Approximately two-thirds of health expenditure is attributable to labour costs (Wiley 2001: 76). Rapid wage inflation may create the impression that investment in health has increased significantly, whereas the additional expenditure may in fact have been absorbed by increased wages rather than new hospital beds, for example. Between 1990 and 2000, the number of people employed in the health sector in Ireland increased by around 39 per cent, from almost 59,000 in 1990 to approximately 81,500 in 2000. The category of employment that grew fastest – by 86 per cent – was 'management and administration'.

Total health expenditure can be broken down into public expenditure and private expenditure on health insurance.

Table 2.14 Public expenditure on health, percentage of GDP

	1960	1970	1980	1985	1990	1995	1998
Ireland	**2.8**	**4.2**	**6.8**	**5.8**	**4.8**	**5.3**	**5.2**
Germany	3.2	4.6	6.9	7.2	6.7	8.0	7.8
Spain	0.9	2.3	4.3	4.4	5.2	5.5	5.4
Sweden	3.3	5.9	8.4	7.9	7.6	6.9	6.6
UK	3.3	3.9	5.0	5.0	5.1	5.9	5.7
US	1.2	2.1	3.6	4.0	4.7	6.0	5.8

Source: OECD Health Data 2001b.

Table 2.15 Private insurance, percentage of total expenditure on health

	1970	1980	1985	1990	1995	1998
Ireland	..	..	..	**8.3**	**8.4**	**8.3**
Denmark	..	0.8	0.8	1.3	1.2	1.5
Germany	7.5	5.9	6.5	7.2	6.7	7.1
Portugal	..	..	0.2	0.8	1.4	..
UK	0.9	1.3	2.5	3.3	3.2	3.5
US	21.9	28.4	31.0	34.1	33.2	33.5

Source: OECD Health Data 2001b.

The proportion of health care financed by private insurance has increased in many countries, while remaining fairly stable in others. The amount of private insurance involved in financing health care in Ireland remained very stable throughout the 1990s (see Table 2.15).

Tax expenditure plays an important role in financing health care in Ireland. The cost of tax relief in respect of private medical insurance premiums during the 1998/99 tax year was over €75 million (Revenue Commissioners 2001: 59). It is interesting to compare this with 'direct' expenditure on social transfers. For instance, some €57 million was spent on Carer's Allowance in Ireland in 1998; the total cost of the Family Income Supplement scheme was under €37 million in that year, and maternity benefits amounted to a little over €48 million (Department of Social, Community and Family Affairs 2000: 4). Such allocation of resources clearly involves a conscious political decision to channel money to subsidising private insurances instead of spending it on public transfer payments. Moreover, the benefit of the tax relief on private medical insurance accrues disproportionately to higher income groups – as does tax relief on private pensions.

Unemployment and employment supports

Unemployment expenditure in Ireland declined in tandem with a decrease in unemployment during the latter half of the 1990s. As with pensions, the structure of expenditure shifted somewhat from social assistance (unemployment assistance) towards social insurance payments (unemployment benefit). However, expenditure on both unemployment benefit and unemployment assistance was lower in 2000 than in 1991. Expenditure on unemployment benefits declined by approximately 2 per cent during this period, whereas the decrease in unemployment assistance was nearly 40 per cent (Department of Social, Community and Family Affairs 2001: 57).

Employment supports include a variety of schemes designed to assist in (re)integration into the workforce or to supplement low incomes from work. These include Family Income Supplement (FIS), Back to Work Allowance, Back to Education Allowance, and a range of smaller schemes. Expenditure on Family Income Supplement grew significantly during the 1990s, from approximately IR£10 million (€12.7 million) in 1991 to over IR£30 million (€38 million) in 2000. Even before Farm Assist (an income supplement for low-income farmers) was included under expenditure on other, non-FIS, employment supports, expenditure growth in this area was notable. In 1991, only a little over IR£1 million (€1.27 million) was spent, whereas in 1998 expenditure amounted to nearly IR£130 million (€165 million) (Department of Social, Community and Family Affairs 2001: 69).

Despite significant reduction in unemployment in the 1990s, expenditure on unemployment still constitutes a relatively high proportion of Ireland's GDP. In fact, this is one of the very few areas of social expenditure where Ireland exceeds the EU average (see Table 2.16).

Table 2.16 Unemployment expenditure, percentage of GDP

Country	1993	1994	1995	1996	1997	1998
Belgium	3.7	3.6	3.5	3.5	3.4*	3.3*
Denmark	5.6	5.2	4.6	4.2	3.7	3.4
Germany	2.9	2.7	2.5	2.6	2.5*	2.5*
Greece	0.8	0.8	1.0	0.9	1.0	1.1*
Spain	5.2	4.4	3.7	3.2	3.0*	2.8*
France	2.7	2.6	2.3	2.3	2.3	2.2*
Ireland	**3.5**	**3.5**	**3.4**	**3.3**	**2.8**	**2.4**
Italy	0.6	0.6	0.8	0.8	0.7	0.7*
Luxembourg	0.7	0.7	0.8	0.9	0.9	0.8
Netherlands	2.9	3.2	2.9	2.8	2.5*	1.9*
Austria	1.6	1.6	1.6	1.6	1.5	1.5
Portugal	1.0	1.1	1.1	1.1	1.0	1.0*
Finland	5.4	5.1	4.4	4.3	3.8	3.2*
Sweden	4.5	4.2	3.8	3.5	3.4	3.0
UK	1.9	1.6	1.4	1.3	1.0	0.9*
EU-15	2.6	2.4	2.3	2.2	2.0*	1.9*

* = Estimated or provisional data.

Source: Statistics Sweden 2001, p. 26.

One of the significant structural changes in social expenditure in Ireland over the period 1990-2000 was the greater focus on active, as opposed to passive, supports for the unemployed. Between 1991 and 1996, public expenditure on labour market programmes increased from 1.31 to 1.66 per cent of GDP (OECD 1997b and 1999b). While this was somewhat less than in Sweden and other Nordic countries that spend significantly in this area, it was considerably higher than in most other European countries.

However, Ireland has not supplied data on 1997 and subsequent years to the OECD and it is therefore not possible to put Ireland's investment in this area in a comparative perspective over the last five years.

Family Income Supplement is a good example of an employment support designed to benefit those on low wages while avoiding the negative incentive effects created by most means-tested payments. Table 2.17 illustrates the considerable growth in the number of recipients and resources devoted to this form of labour market support.

Table 2.17 Family Income Supplement: Expenditure and number of recipient families, 1990-2000

Year	Expenditure €000s	Recipient families
1990	11,103	6,569
1991	13,167	7,157
1992	16,038	7,735
1993	20,872	9,605
1994	26,442	10,671
1995	27,078	11,398
1996	27,792	11,847
1997	32,999	12,888
1998	36,386	13,143
1999	41,134	14,549
2000	39,386	

Source: Department of Social, Community and Family Affairs 2000 and 2001.

The shift from passive towards active income support in unemployment payments and other social welfare payments is a welcome development. As this report shows, the Irish welfare state, in keeping with the liberal welfare state model, has been very heavily focused on means-tested benefits. Lessening means-testing and providing income support for working people and families, along with appropriate help in training and seeking work, often creates increased work incentives and opportunities for groups such as lone parents and the long-term unemployed. As unemployment has fallen, more people have also gained entitlement to contributory payments and would therefore benefit from further improvements in these benefits. Good contributory benefits also create work incentives and increase the recipient's independence during periods outside the labour force.

Child-related expenditure

Child-related payments include Child Benefit, Orphan's Pensions and maternity-related payments such as Maternity Benefit, Adoptive Benefit and Health and Safety Benefit. Between 1999 and 2000, expenditure on these payments increased by almost 13 per cent, largely as a result of increases in child benefit. Expenditure on child benefit increased by more than 130 per cent between 1991 and 2000 (see Table 2.19). This is the result of determined campaigning by a number of organisations, as well as extensive Irish and international research that has demonstrated both the prevalence of child poverty in Ireland and the long-term negative influence of poverty experienced in childhood. The government's increased expenditure in this area is also partly to offset the rising costs of child care.

Table 2.18 Expenditure on families/children, percentage of GDP

Country	1980	1990	1995	1996	1997	1998
Belgium	3.1*	2.3	2.3	2.4	2.3*	2.2*
Denmark	2.9	3.3	3.9	3.8	3.7	3.8
Germany	2.5	1.8	2.1	2.8	2.9*	2.8*
Greece	..	1.6	1.9	1.9	1.9	1.9*
Spain	0.7	0.3	0.4	0.4	0.4*	0.4*
France	2.9*	2.5	2.9	2.9	3.0	2.8*
Ireland	**1.7***	**2.0**	**2.2**	**2.2**	**2.1**	**1.9**
Italy	1.4*	1.1	0.8	0.8	0.9	0.9*
Luxembourg	2.6	2.3	3.1	3.1	3.0	3.3
Netherlands	2.6*	1.7	1.3	1.3	1.3*	1.2*
Austria	3.3	2.7	3.3	3.1	2.9	2.8
Portugal	0.9*	1.0	1.1	1.0	1.1	1.1*
Finland	1.9	3.3	4.1	3.8	3.6	3.4*
Sweden	..	..	4.0	3.7	3.5	3.5
UK	..	2.0	2.4	2.4	2.3	2.2*
EU-15	..	..	2.1	2.3	2.3	2.2*

* = Estimated or provisional data.

Source: European Commission/Eurostat 2000b, p. 88.

Improvements in the welfare of children are particularly valuable as children represent an investment in the future, and as such can lead to a reduction in the need for (often very expensive) social interventions in later life. Child benefits have been chosen as the main tool in the fight against child poverty in Ireland. Evaluating the effectiveness of this approach is not possible within the scope of this report, but it is clear that these efforts at reducing child poverty would be greatly aided by increased service expenditure in areas such as early education, child care, and health expenditure.

Table 2.19 Expenditure on child benefits, € millions

Year	Expenditure
1991	274
1992	278
1993	294
1994	337
1995	382
1996	477
1997	505
1998	531
1999	565
2000	637

Source: Department of Social, Community and Family Affairs 2001: 37.

SOCIAL PROTECTION FOCUS

In the EU-15, expenditure connected with the family, housing and social exclusion has for many years been gaining ground over expenditure on health, disability and unemployment. Despite this trend, Old age and survivors, and Sickness, health care and disability remain the two largest areas of expenditure (see Table 2.20).

Table 2.20 Social benefits by group of functions in 1999 (as percentage of total social benefits)

	Old age and survivors	Sickness, health care, disability	Families and children	Unemployment	Housing, social exclusion
EU-15	46.0	34.9	8.5	6.8	3.8
Belgium	43.0	33.6	9.1	12.1	2.2
Denmark	38.0	31.7	13.0	11.2	6.1
Germany	42.1	36.0	10.5	8.8	2.6
Greece	50.7	31.0	7.6	5.7	5.0
Spain	46.2	37.0	2.1	12.9	1.9
France	44.2	34.0	9.8	7.4	4.6
Ireland	**25.2**	**45.3**	**13.0**	**11.1**	**5.4**
Italy	64.0	30.0	3.7	2.2	0.2
Luxembourg	41.4	39.5	15.5	2.5	1.1
Netherlands	41.5	40.7	4.3	6.2	7.4
Austria	47.4	35.4	10.3	5.4	1.6
Portugal	43.7	45.6	5.2	3.7	1.8
Finland	35.1	37.2	12.8	11.3	3.7
Sweden	39.5	36.9	10.5	8.1	4.9
UK	46.1	34.8	8.8	3.2	7.0

Sickness/health care: includes *inter alia* paid sick leave, medical care and supply of pharmaceutical products. Disability: includes i.a. disability pensions and the provision of goods and services (other than medical care) to the disabled. Old age: includes i.a. old-age pensions and the provision of goods and services (other than medical care) to the elderly. Survivors: includes income support and support in connection with the death of a family member. Family/children: includes support (other than medical care) in connection with pregnancy, childbirth, maternity and the care of children and other dependent family members. Unemployment: includes i.a. unemployment benefits and vocational training financed by public agencies. Housing: interventions by public agencies to help households meet the costs of housing. Social exclusion (not elsewhere classified): includes income support benefits, rehabilitation of alcoholics and drug addicts and various other benefits (other than medical care).

Source: Eurostat 2002.

The Irish population is the 'youngest' in Europe. In 1999, nearly a third of the population (31.4 per cent) was aged under 20 against an EU-15 average of 23.1 per cent. Whereas 16.1 per cent of the EU population as a whole was aged over 65, only 11.3 per cent of the Irish population belonged to this age group. Such disparity partly explains the small proportion of total social expenditure that is devoted to old age expenditure in Ireland. In the EU as a whole, expenditure on old age and survivors amounts to almost half of all social expenditure. Pensions expenditure absorbs the largest share of social expenditure in Italy, where some 64 per cent of expenditure is devoted to this function.

The proportion of total social expenditure spent on sickness, health care and disability in Ireland is the second highest in the EU, with only Portugal spending more on this area. In Portugal, Ireland and Finland, expenditure on sickness, health care and disability functions exceeds expenditure on the old age and survivors functions.

In 1999, 13 per cent or more of total social expenditure in Luxembourg, Denmark and Ireland came under the heading of families and children. This then appears to be the second 'priority area' of Irish social protection in a comparative perspective. In contrast, in Spain, Italy and the Netherlands expenditure on families and children accounts for less than 5 per cent of all social expenditure.

There are also significant differences between the member states in the share of social expenditure linked to unemployment. Whereas more than 11 per cent of all expenditure in Belgium, Denmark, Spain, Ireland and Finland is linked to this function, in Italy and Luxembourg less than 3 per cent is spent on unemployment-related social protection. Despite its relatively low unemployment levels, Ireland is among the three member states that devote the greatest share of their social protection budgets to unemployment-related benefits and programmes. Ireland also devotes a comparatively large proportion of total social expenditure to housing and to reducing social exclusion: this is probably due to the predominance of means-tested (and therefore poverty/social exclusion-oriented) payments in transfer expenditure.

Chapter 3

Cross-national analysis of social expenditure – Ireland in a comparative context

There are no reliable longitudinal and cross-national data on total social expenditure that includes service expenditure. There are, however, comprehensive data on transfers (see Table 3.1). While this table does not provide the full picture of social expenditure, it is nonetheless a useful indication of the level of social expenditure in Ireland in comparison with the EU average and the OECD average.

Table 3.1 Social security transfers, percentage of GDP, 1960-1994

	1960	1968	1974	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Ireland	5.5	6.5	11.4	16.5	17.2	16.7	16.1	14.2	13.9	14.6	15.0	14.9	14.6
Total EU-15	9.7	12.4	13.3	17.7	17.6	17.4	17.1	16.9	17.1	18.0	18.8	19.7	19.7
Total OECD	6.9	8.5	10.6	13.5	13.5	13.5	13.2	13.2	13.6	14.3	15.1	15.6	15.5

Source: OECD (1997a) Historical Statistics, 1960-1995, p. 71.

The most comprehensive comparative measure we have available on social expenditure is net total social expenditure. The latest year for which comparative statistics are available on this indicator is 1997. Tables 3.2 and 3.3 set out a variety of social expenditure measures for eighteen OECD countries in 1997. It is revealing that net total social expenditure in Ireland is the fourth lowest among these countries: only Japan, Korea and New Zealand have a lower level of expenditure.

Tables 3.2 and 3.3 show that gross public social expenditure amounts to more than one quarter of GDP in Austria, Belgium, Denmark, Finland, Germany, Italy, Netherlands, Norway and Sweden. However, as has been pointed out above, caution is needed in basing conclusions about the size and comprehensiveness of the welfare state on gross expenditure figures. Voluntary private social benefits tend to play an important role in countries where the extent of public social expenditure is relatively small – Australia, Canada, Korea and the US. Pensions form an important component of voluntary private social expenditure: pension payments range from 1 to 4 per cent of GDP in (ascending order) Ireland, Italy, Sweden, the UK, Australia, the Netherlands, the US and Canada. Private social health benefits are most prevalent in the US, amounting to 4.2 per cent of GDP (Adema 2001: 12) (see Table 3.4).

Table 3.2 Net social expenditure indicators, percentages of GDP, 1997

	Aus	Austria	Belg	Canada	Czech R.	Dk	Fin	Ger	Ireland
1. Gross public soc.exp.	18.7	28.5	30.4	20.7	21.7	35.9	33.3	29.2	19.6
– Direct taxes and soc. contrib.s	0.3	2.5	1.8	1.7	0.0	5.1	4.4	1.3	0.3
2. Net cash public soc. exp.	18.4	26.0	28.6	19.0	21.7	30.8	28.9	27.8	19.3
– Indirect taxes	0.8	3.0	2.8	1.3	2.5	4.1	4.2	2.3	2.5
3. Net direct public soc.exp.	17.6	23.0	25.8	17.8	19.3	26.7	24.8	25.5	16.7
+ T1 TBSPs similar to cash benefits	0.2	0.4	0.6	0.6	..	0.0	0.0	1.9	0.3
– Indirect taxes	0.0	0.1	0.1	0.1	..	0.0	0.0	0.3	0.1
4. Net TBSPs similar to cash benefits	0.2	0.3	0.5	0.6	..	0.0	0.0	1.6	0.2
+ T2 TBSPs towards current private benefits	0.0	0.1	0.0	0.4	..	0.0	0.0	0.0	0.2
5. Net TBSPs (not including pensions)	0.3	0.4	0.5	0.9	..	0.0	0.0	1.6	0.4

	Aus	Austria	Belg	Canada	Czech R.	Dk	Fin	Ger	Ireland
6. Net current public soc.exp.	17.9	23.4	26.3	18.7	19.3	26.7	24.8	27.2	17.1
7. Gross mandatory private soc.exp.	1.2	0.9	1.7	0.0	0.0	0.4	0.2	1.3	0.0
– Direct taxes and soc. contrib.s	0.2	0.3	0.1	0.0	0.0	0.2	0.0	0.5	0.0
– Indirect taxes	0.1	0.1	0.2	0.0	0.0	0.1	0.0	0.1	0.0
8. Net current mand. private soc.exp.	0.9	0.5	1.3	0.0	0.0	0.2	0.1	0.7	0.0
9. Net publicly mandated soc.exp.	18.8	23.9	27.5	18.7	19.3	26.9	24.8	27.9	17.1
10. Gross volunt. private soc.exp.	3.4	0.9	1.0	4.8	0.0	1.1	1.3	1.1	1.8
– Direct taxes and soc.exp.	0.1	0.0	0.0	1.1	0.0	0.3	0.3	0.1	0.1
– Indirect taxes	0.2	0.0	0.0	0.3	0.0	0.1	0.2	0.1	0.2
11. Net current volunt. private soc.exp.	3.1	0.8	0.9	3.5	0.0	0.6	0.8	0.9	1.5
12. Net current private soc. exp. (8+11)	4.1	1.3	2.2	3.5	0.0	0.8	0.9	1.6	1.5
13. Net total soc.exp. (6+12-T2)	21.9	24.6	28.5	21.8	19.3	27.5	25.6	28.8	18.4

TBSP = Tax breaks for social purposes
T1 = TBSPs similar to benefits in kind
T2 = TBSPs towards current private benefits
Source: Adema (2001)

Table 3.3 Net social expenditure indicators, percentages of GDP, 1997

	Italy	Japan	Korea	NL	NZ	Norway	Swe	UK	US
1. Gross public soc.exp.	29.4	15.1	4.4	27.1	20.7	30.2	35.7	23.8	15.8
– Direct taxes and soc. contrib.s	2.9	0.2	0.0	4.4	1.9	2.6	4.4	0.4	0.4
2. Net cash public soc.exp.	26.6	14.9	4.4	22.7	18.9	27.6	31.3	23.4	15.5
– Indirect taxes	2.4	0.5	0.2	2.4	1.9	3.2	2.8	2.3	0.4
3. Net direct public soc.exp.	24.1	14.4	4.2	20.2	17.0	24.4	28.5	21.1	15.0
+ T1 TBSPs similar to cash benefits	..	0.5	0.4	0.0	0.0	0.0	..	0.3	0.3
– Indirect taxes	..	0.0	0.0	0.0	0.0	0.0	..	0.1	0.0
4. Net TBSPs similar to cash benefits	..	0.4	0.4	0.0	0.0	0.0	..	0.3	0.2
+ T2 TBSPs towards current private benefits	..	0.0	0.0	0.1	0.1	0.0	..	0.2	1.2
5. Net TBSPs (not including pensions)	..	0.4	0.4	0.1	0.1	0.0	..	0.5	1.4
6. Net current public soc.exp.	24.1	14.8	4.6	20.3	17.0	24.4	28.5	21.6	16.4
7. Gross mandatory private soc.exp.	1.5	0.5	2.5	0.8	0.0	1.2	0.4	0.4	0.4
– Direct taxes and soc. contrib.s	0.2	0.0	0.1	0.3	0.0	0.3	0.1	0.1	0.1
– Indirect taxes	0.2	0.0	0.3	0.1	0.0	0.2	0.0	0.1	0.0

	Italy	Japan	Korea	NL	NZ	Norway	Swe	UK	US
8. Net current mand. private soc.exp.	1.1	0.5	2.1	0.5	0.0	0.7	0.2	0.3	0.3
9. Net publicly mandated soc.exp.	25.2	15.3	6.7	20.8	17.0	25.1	28.7	21.9	16.8
10. Gross volunt. private soc.exp.	0.1	0.4	1.9	4.7	0.5	..	3.0	3.8	8.4
– Direct taxes and soc.exp.	0.0	0.0	0.0	0.9	0.0	..	0.7	0.5	0.4
– Indirect taxes	0.0	0.0	0.0	0.4	0.0	..	0.3	0.5	0.2
11. Net current volunt. private soc.exp.	0.1	0.4	1.9	3.3	0.5	..	1.9	2.9	7.8
12. Net current private soc.exp. (8+11)	1.2	0.9	4.0	3.8	0.5	..	2.2	3.2	8.1
13. Net total soc.exp. (6+12-T2)	25.3	15.7	8.6	24.0	17.5	25.1	30.6	24.6	23.4

TBSP = Tax breaks for social purposes
T1 = TBSPs similar to benefits in kind
T2 = TBSPs towards current private benefits
Source: Adema (2001)

Recent trends in levels of social expenditure in the EU

Despite ongoing discussion on the 'crisis of the welfare state', the overall trend in social expenditure in the EU is clearly upward. Whereas in 1990 EU countries spent on average 25.4 per cent of their GDP on social protection, this had risen to 28.7 per cent in 1996 (European Commission/Eurostat 2000a: 26). Social protection/GDP rates are highest in the Nordic countries (32-35 per cent) and lowest in the Mediterranean member countries (with the exception of Italy) and Ireland (19-23 per cent). While there are still obvious disparities between EU countries, both in the extent and division of social expenditure between different areas of social policy, the broad trend is that of covergence in expenditure levels. This is due to the fact that in recent years, the largest increases have taken place in those countries that traditionally have had lower levels of expenditure. As will be shown below, Ireland forms an exception in this respect.

The EU-wide increase in social expenditure between 1990 and 1996 occurred for the most part during 1990-1993 which was a period of low rates of GDP growth and increased unemployment in many EU countries. Decrease in expenditure between 1993 and 1996 was most noticeable in Finland, Sweden and the Netherlands, which all experienced high levels of expenditure in 1993. This illustrates the importance of not relying on 'crude' expenditure rates as a guide to actual welfare state growth: the expenditure/GDP ratio can fluctuate considerably due to changes in GDP.

Between 1990 and 1993 per capita social expenditure in the 15 EU member states increased by approximately 4.1 per cent per year in real terms. The rate of growth was particularly high in Portugal (12.8 per cent per year) and in the UK (8.9 per cent per year). Greece is the only EU country where per capita expenditure fell in real terms during this period. Between 1993 and 1996, the average social expenditure growth rate was only 1.6 per cent per year in the EU on average. Between 1996 and 1999 the expenditure growth rate also remained low at 1.5 per cent per year. Rates of growth increased in all member states except Finland where social expenditure fell in real terms. Greece and Portugal, in contrast, recorded strong increases in their social expenditure. In 1999, social expenditure growth accelerated in all member states and the rate of increase in per capita expenditure in real terms was approximately 2.4 per cent in the EU on average (the only exception was Finland where per capita spending remained stable in real terms) (Eurostat 2002).

Castles (2001b: 1) has established that in terms of total social expenditure, Europe as a whole, and the countries currently constituting the EU, are somewhat more similar to each other than are the countries constituting a wider OECD grouping. However, this similarity is not sufficient to warrant the label 'European social policy model'. Castles also found that 'over time, there is a general tendency for there to be greater coherence in total spending levels and in levels of expenditure on poverty alleviation and health care, but lesser coherence in respect of levels of social security spending' (2001b:1).

In Table A (see Appendix), countries are grouped into 'families of nations' (Castles 1993 and 1998) according to their geographical, historical and linguistic affinities. The four families in Table A are: the

English-speaking nations, and the countries of Scandinavia, continental Western Europe and Southern Europe. Japan is in a category of its own.

The figures in Table A do not provide evidence of a general process of expenditure contraction between 1984 and 1997. In 1984, the total state spending mean for these nations was 46.2 per cent of GDP; in 1997, it was 45.2 per cent, a decline of just one percentage point of GDP over 13 years, hardly a sign of 'the death of the welfare state'. Rather, Table A demonstrates the great variety of the OECD public expenditure experience, both in respect of levels of spending and of expenditure change over time. The big spenders of the mid-1980s were to be found in continental Western Europe and in parts of Scandinavia. The English-speaking countries were split between middle-ranking and very low spenders (Ireland being around the middle), while Southern Europe was the most consistently low-spending grouping. By 1997, total state spending in all the countries of continental Western Europe and Scandinavia was in excess of 44 per cent of GDP, while the governments in Southern Europe – with the exception of Greece and Italy – and in the English-speaking world spent less. However, the English-speaking countries had now changed places with the countries of Southern Europe to feature as the most consistently low-spending family of nations. Ireland, Belgium, Greece, the United Kingdom and Denmark experienced expenditure contraction on a major scale during this period. Finland, Italy and Spain in contrast experienced substantial expenditure growth (Castles 2001a). In the Mediterranean and Nordic 'families' total expenditure grew between 1984 and 1997, whereas strong contraction took place in the liberal countries and slightly less dramatic reductions are evident in the continental countries.

How has the composition of total public expenditure changed? Total government expenditure comprises social as well as non-social expenditure. Major items of non-social expenditure include public education, defence, law and order, public infrastructural development, public administration and public debt interest payments. The social expenditure figures allow us to reject the hypothesis of a 'race to the bottom'. On the other hand, the figures for change in non-social spending do clearly reveal a consistent pattern of decline in non-social areas of public sector spending. There has been a marked differentiation of expenditure trends, with spending on major social programmes 'ring-fenced' from other areas that have been far more vulnerable to retrenchment pressures. This general pattern holds in the case of Ireland, too: while the share of GDP devoted to social expenditure remained stable, the proportion devoted to non-social expenditure declined (see Table 3.4).

Table 3.4 Levels and changes in total public social expenditure and total public non-social expenditure as percentages of GDP in nineteen OECD countries, 1984-1997

Country	Social expenditure			Non-social expenditure		
	1984	1997	Change	1984	1997	Change
Australia	13.7	18.1	4.4	22.7	15.1	-7.6
Canada	16.2	16.9	0.7	29.1	25.5	-3.6
Ireland	**17.9**	**17.9**	**0.0**	**29.8**	**15.3**	**-14.5**
United Kingdom	21.1	21.6	0.5	26.0	19.3	-6.7
USA	14.1	16.0	1.9	19.0	15.4	-3.6
Denmark	28.9	30.5	1.6	33.7	26.3	-7.4
Finland	22.3	29.3	7.0	17.9	22.5	4.6
Norway	19.7*	25.4	5.7	22.4	18.7	-3.7
Sweden	30.0	33.3	3.3	29.2	25.7	-3.5
Austria	24.3*	25.4	1.1	25.0	24.4	-0.6
Belgium	26.7	23.6	-3.1	34.0	27.8	-6.2
France	26.4	29.6	3.2	25.1	23.0	-2.1
Germany	23.6	26.6	3.0	23.8	21.5	-2.3
Italy	21.0	26.8	5.8	28.4	23.2	-5.2
Netherlands	30.2	25.1	-5.1	23.6	19.5	-4.1
Greece	16.9	22.2	5.3	26.2	28.2	2.0
Portugal	11.4	18.7	7.3	29.7	24.8	-4.9
Spain	17.8	20.9	3.1	17.4	19.0	1.6
Japan	11.4	14.4	3.0	20.9	20.6	-0.3
Mean	**20.7**	**23.3**	**2.6**	**25.5**	**21.9**	**-3.6**

Sources and Notes: Total public social expenditure supplied by OECD Secretariat from Social Expenditure Database (SOCX). Total public non-social expenditure is derived by subtracting social expenditure from total outlays from Table 1.
* Data are for 1985.

Table 3.5 shows social spending as a percentage of total government outlays in 1984 and 1997. In each of these nineteen OECD nations, social expenditure constituted a higher proportion of total public spending in

1997 than in 1984. In 1984, welfare state spending averaged 44.4 per cent of total spending; by 1997, the figure was 51.3 per cent. As Castles argues, these figures reveal that we are now in an era in which welfare is the foremost priority of the vast majority of governments in industrially advanced societies.

Table 3.5 Total social expenditure as a percentage of total government outlays in nineteen OECD countries, 1984-1997

Country	1984	1997
Australia	37.6	54.5
Canada	35.8	39.9
Ireland	**37.5**	**53.9**
United Kingdom	44.8	52.8
USA	42.6	51.0
Denmark	46.2	53.7
Finland	55.5	56.6
Norway	46.8	57.6
Sweden	50.7	56.4
Austria	49.3	51.0
Belgium	44.0	45.9
France	51.3	56.3
Germany	49.8	55.3
Italy	42.5	53.6
Netherlands	56.1	56.3
Greece	39.2	44.0
Portugal	27.7	43.0
Spain	50.6	52.4
Japan	35.3	41.1
Mean	44.4	51.3

Source: Castles (2001a).

CHAPTER 4

FINANCING SOCIAL EXPENDITURE, REDISTRIBUTION AND OPTIONS FOR THE FUTURE

Financing social expenditure

There are three main ways in which social protection can be financed:

- through direct and indirect taxes imposed by the government on incomes and consumption (tax financing or general government contributions)
- through mandatory social insurance contributions by the employer and/or the employee (social contributions, social insurance; in Ireland: pay-related social insurance – PRSI)
- through voluntary contributions by individuals and/or their employers.[2]

The structures of funding social expenditure vary considerably between EU countries. In the EU as a whole, most social expenditure – approximately 60 per cent – is funded through employee and employer contributions, with general government contributions derived from taxes covering approximately 35 per cent in 1999 (see Table 4.1 and Eurostat 2002). However, in most EU countries social expenditure is *either* predominantly tax-funded *or* social contribution funded. The share of employee and employer contributions of funding is highest in Belgium, Spain, France, the Netherlands and Germany. Conversely, taxes, i.e. general government contributions, play the largest role in Denmark and Ireland where the relative weight of taxes – as opposed to social security contributions – in total receipts is around 65 and 60 per cent respectively. The UK, Luxembourg and Sweden also rely heavily on tax-financing. However, as financing through taxes gains ground in countries where it used to be relatively low, the gaps in sources of financing are narrowing.

2 Where this involves tax reliefs that are intended to encourage and support private provision, the state is also involved through foregoing tax revenue that it would otherwise extract.

There is no correlation between the funding structure and level of social spending: there are high-spending and low-spending countries in both categories. Social spending is predominantly contribution-financed in Belgium, Germany, Spain, France, Italy and the Netherlands. Tax financing plays a particularly important role in Denmark and Ireland, but also in Finland, Sweden and the United Kingdom. Table 4.1 shows that the share of general government contributions has been rising while the share of social contributions in financing social protection has been falling.

Table 4.1 Receipts of social protection by type (as percentage of total receipts)

	General government contributions		Social contributions						Other receipts	
			Total		Employers		Protected persons			
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
EU-15	28.8	35.7	67.1	60.6	42.5	37.9	24.6	22.7	4.1	3.7
Belgium	23.8	25.7	67.0	71.8	41.5	49.4	25.5	22.4	9.2	2.5
Denmark	80.1	65.2	13.1	28.5	7.8	9.2	5.3	19.2	6.8	6.4
Germany	25.2	32.8	72.1	65.0	43.7	36.9	28.4	28.1	2.7	2.3
Greece	33.0	28.6	59.0	61.1	39.4	37.7	19.6	23.4	8.0	10.3
Spain	26.6	26.8	71.3	69.2	54.4	52.2	16.9	17.0	2.5	4.0
France	17.0	30.4	79.5	66.8	51.0	46.5	28.5	20.3	3.5	2.8
Ireland	58.9	59.8	40.0	39.0	24.5	24.2	15.6	14.8	1.0	1.2
Italy	27.2	38.9	70.3	58.0	54.9	43.6	15.5	14.4	2.5	3.1
Lux'burg	41.5	46.9	50.5	49.1	29.5	24.7	21.0	24.4	8.1	4.0
Netherlands	25.0	15.3	59.0	65.8	20.0	28.4	39.0	37.4	15.9	18.9
Austria	35.9	35.0	63.1	64.3	38.1	37.4	25.1	26.9	0.9	0.7
Portugal	33.8	40.9	57.0	44.4	36.9	27.6	20.0	16.8	9.2	14.7
Finland	40.6	43.4	52.1	50.0	44.1	37.2	8.0	12.8	7.3	6.6
Sweden	..	48.9	..	45.9	..	36.3	..	9.6	..	5.2
UK	42.6	47.3	55.0	51.8	28.1	27.7	26.9	24.0	2.4	0.9

No data on benefits and receipts available for Sweden for 1990-1992.

Source: Eurostat 2002.

In 1999, nearly 60 per cent of social protection expenditure in Ireland was financed by the Exchequer, i.e. through taxes, and almost 40 per cent through the Social Insurance Fund, i.e. through contributions. The social contributions in turn can be divided into the employers' share (around 24 per cent of total funding) and employees' share (around 15 per cent of total share) (Eurostat 2002). Employers' social security contributions' share of total taxation was just over 8 per cent in 1997 in Ireland, while the European Union average was almost 16 per cent (OECD 1999a: 83). Total – employee and employer – social security contributions in Ireland amounted to just under 13 per cent of total taxation in 1997, the EU average being nearly 29 per cent (OECD 1999a: 79). In short, social contributions play a considerably smaller part in financing the welfare state in Ireland than they do in other European countries.

A comparatively large share of total taxation in Ireland is derived from taxes on goods and services. In 1997, nearly 40 per cent of total taxes in Ireland were taxes on goods and services, i.e. mostly consumer goods and services such as clothes, food and haircuts (OECD 1999a: 89). The EU average was just over 30 per cent. Unlike taxes on income, taxes on goods and services (consumption) are regressive as they are heavier for those on low incomes. For instance, a €10 value added tax on a grocery bill is a larger proportion of a €100 income than of a €1,000 income.

Corporation taxes have been reduced radically in Ireland over the last 10 years as part of a strategy aimed at attracting foreign investment. Employers' PRSI contribution has also been reduced recently from 12 to 10 per cent: the cost of this measure in lost revenue is around €347 million per annum (Combat Poverty Agency 2002). However, this reduction in the rate of employer PRSI rate has been more than compensated for by the decision in 2001 to abolish the ceiling on employer PRSI contributions.

A shift from public to private benefits is sometimes advocated as a solution to the difficulties that governments may have in financing social expenditure when both tax increases and public sector borrowing appear unpalatable. It is important to note, however, that while public and private financing differ in many respects, their influence on the economy is sometimes similar. For instance, a shift from public to private financing of benefits is likely to lead to calls for higher wages as people need to meet the cost of social protection from their own resources: this, of course, affects labour costs in a similar way as taxes that were used to fund public benefits (Adema 2001: 6).

Table 4.2 Total tax revenue, percentage of GDP

	1985	1990	1995	1998	1999
Ireland	35.1	33.6	33.1	32.3	31.9
US	26.1	26.7	27.6	28.9	..
EU average	38.6	39.2	40.1	41.7	42.1

Source: OECD (2001c, p.172).

There are, of course, many different factors that influence the level and trend of tax-to-GDP ratios. The most important ones are: the extent to which social or economic assistance is provided via tax expenditure, rather than direct government spending; whether or not social security benefits are subject to tax; the size of the underground economy; the time lag between accruals and receipts of tax, the economic cycle and differences in the measurement of GDP between countries (OECD 1999a: 28).

It is obviously meaningless to talk about increasing social expenditure without analysing the implications and putting forward recommendations regarding the changes required in the taxation system. Improving services and providing more equitable access to services calls for, firstly, decreasing and re-engineering tax relief on private insurances, and, secondly, channelling more tax revenue to services.

THE REDISTRIBUTIVE EFFECTS OF SOCIAL EXPENDITURE

This section will examine the factors that influence the degree of redistribution that is brought about through social spending. The most important of these factors include: pre-transfer income inequality, tax incentives for private social spending, and emphasis on means-tested vs. universal transfers.

Not all social spending produces equal results. Two countries may spend exactly the same amount on social protection but end up with very different results. The redistributive impact of social expenditure depends on a number of variables that include the following:

- The income distribution that exists before redistribution through transfers. For instance, high inequality of market incomes necessitates more extensive social spending in order to achieve the low poverty levels that are more easily obtained in countries with high pre-transfer earnings equality. High and growing earnings inequality in Ireland in the 1990s would have necessitated increased levels of income taxation (particularly on high-income earners) and/or more extensive social transfers, if more equal post-tax, post-transfer distribution had been the goal.

- The proportion of the population without market income. It is clear that the larger the proportion of the jobless, and the longer the duration of their unemployment, the greater the share of earned incomes that has to be spent on maintaining the incomes of those who have no work (see also O'Connell and Rottman 1992).
- The division of social spending between universal and means-tested transfers. It has been shown that universalist welfare states are more successful at bringing about low income inequality than transfer systems that are based on means-tested payments (Korpi and Palme 1998). This is partly because universalist welfare states tend to have larger social expenditure budgets than residualist welfare states: means-tested benefits tend to be meagre and add up to modest aggregate spending. Moreover, generous universalist benefits are proportionately worth more for low-income individuals and households, and in many cases low-income households receive a larger proportion of universal benefits than high-income households – as is the case with child benefits, for instance.
- The level of benefits. A welfare state may offer a wide array of benefits, or even a lot of universal and earnings-related benefits, but if these are of a low level in relation to earned incomes, their redistributive impact is likely to be poor.
- Redistribution through tax credits and incentives tends to favour high-income groups disproportionately as these groups are most likely to invest in private pensions and health care.

As has been pointed out above, the level of social expenditure is influenced by a plethora of factors such as the age structure of the population, unemployment, patterns of household and family formation and income inequality. As income inequality increases, more redistribution through the tax and benefits system is required in order to bring about post-tax and post-transfer income equality. Social expenditure would not be necessary if everyone was employed and earning the exact same wage. The purpose of social expenditure is essentially to lessen the inequalities created by the market: where the inequality that is inevitably created by open markets increases, the redistributive system has to work harder to bring about the reductions in inequality that are deemed desirable.

The relatively young population structure of Ireland means that the demographic pressures on social expenditure in this country are not as strong as in many other advanced capitalist countries. However, the adequacy of social expenditure levels in Ireland is threatened significantly by income inequality. If post-tax and post-transfer levels of inequality are to be brought to a low level under conditions of relatively high (and increased) inequality of market incomes, redistribution through social expenditure – and the tax system – has to be extensive.

In many countries the tax system is an important part of the redistrisbutive mechanism. There are two main ways in which the tax system can become part of the social protection system. First, taxes can be reduced on particular forms of income or types of household.[3] For instance, certain benefits and pensions may not be taxed, or may be taxed at a very low rate. OECD statistics on net social expenditure cover this tax expenditure under 'direct taxation'. Second, tax breaks can be used to act as 'cash benefits' or to stimulate provision and use of private benefits and services. An example of this kind of 'tax break expenditure' would be tax advantages given to providers of private child-care facilities, or tax reduction for people with private pension or health insurance cover.

While tax breaks for social purposes are comparatively small in Ireland (Cantillon and O'Shea 2001), they nonetheless play an important role in bringing about inequitable welfare outcomes, most notably in the area of health care. Taxation is used as a tool to encourage and subsidise certain kinds of behaviour, such as care work in the home and private insurances. The tax system in Ireland is favourable to households that live in owner-occupied accommodation and take private insurances against social risks such as illness and old age. For this reason, it is important to include tax allowances in the total social expenditure figure while bearing in mind that redistribution through the tax system does not necessarily bring about equitable redistributive results.

Social transfers other than pensions are heavily concentrated on low-income individuals and households in Ireland (European Commission/ Eurostat 2000a: 30). This has given an incentive for the better-off to take out private insurances that are in many cases sponsored by the state through tax reliefs. This in turn has contributed to income inequality in Ireland remaining stubbornly high. Favourable tax treatment of private

3 NB. OECD includes in tax breaks for social purposes the value of tax advantages towards dependent children. However, tax advantages for married people are not included as they are not considered to serve a social purpose (Adema 2001: 21).

employer-sponsored health care plans in the US is worth almost 1 per cent of GDP. While this tax relief creates an incentive for employers to provide health benefits, it is also regressive – and therefore 'anti-redistributive' – as it provides the greatest tax relief for those on highest incomes (Adema 2001: 12).

The structure of social expenditure has extensive implications for the redistributive effectiveness and political legitimacy of the welfare state. Systems that rely strongly on voluntary private expenditure, and encourage such expenditure through tax allowances, tend to produce less egalitarian welfare outcomes. It is clear that 'the greatest beneficiaries of tax expenditure are those who have the least needs by any measure used in social policy analysis' (Sinfield 1997: 20). Perhaps the best example of this is the US health care system where standards vary dramatically between private care (financed through private insurance contributions) and a skeletal public health care system (financed through taxes). In contrast, countries that have encompassing transfer systems and services tend to generate more egalitarian social outcomes along with greater political support among the population as a whole (Korpi and Palme 1998).

CONCLUDING REMARKS

The main purpose of this study has been to clarify the concept of social expenditure and to present recent developments in Irish social expenditure in a comparative context. It has painted a picture of Ireland as a low-tax, low-spending welfare state that is heavily focused on means-tested benefits and primarily financed through taxation. It is important to note that the contents of this study do not in themselves give rise to any overarching recommendations. For instance, it is not appropriate merely to call for a greater volume of social expenditure. As has been demonstrated above, there are many different kinds of social expenditure, and at the very least a choice would have to be made between, say, means-tested as opposed to employment-based expenditure, tax-financed vs. contribution based, service vs. transfer expenditure, and so on. Possible ways of altering individual components of spending have been outlined above under the relevant sections. However, this study has not investigated in sufficient detail the structures, mechanism and outputs of the Irish welfare state to warrant recommendations on how the welfare system overall should be changed. It is intended first and foremost to serve as an informative guide to those who want to gain an understanding of social expenditure, and to add to their knowledge of the details of the Irish welfare system in making informed recommendations about future social spending.

In addition to disagreements among social policy and economic analysts over the effectiveness of various forms of redistribution, different ideological positions are taken on the desirability of overall, and specific forms, of social spending. The following is a good illustration of the kinds of unresolved debate that are taking place regarding the desirable extent of social expenditure. An OECD report on social expenditure published in 1985 stated that 'the share of social spending in gross national product should not be allowed to increase; otherwise it could conflict with the aim of sustained economic growth' (OECD 1985: 7). It is arguable that this belief has informed recent social and public policy making in Ireland. However, the connection between economic growth and the extent of redistribution is far from clear. A recent study by the OECD Social Policy Division (Arjona et al. 2001) finds 'no reliable evidence of links between the final income distribution and growth'. The study makes a distinction between 'passive' social spending which is prejudicial to economic growth, and 'active' social spending which promotes growth. Among other things, active social spending tends to promote labour supply and counteracts pre-tax, pre-transfer income inequality by promoting labour market participation and mobility. 'Active' spending consists of resources devoted to helping people to find work, increase their skills and improve their health. Empirically, there can be no doubt that many countries have achieved high and sustainable economic growth despite spending heavily on social protection, while others have performed well economically though opting for more limited redistribution.

It is clear that 'the most deep-seated determinant of social expenditure growth must be a government's commitment to equity objectives … together with the prevailing judgement as to the extent to which these objectives can be pursued in the face of a trade-off between equity and economic efficiency' (OECD, 1985: 24). As the current study has shown, the level and nature of social expenditure is the sum total of many intertwined economic, demographic and social influences. It is important to note, however, that social policy, and politics at large, is the product of conscious political decisions that are guided by value judgments as much as by rational calculations.

It is sometimes argued, and in most cases implicitly, that Ireland does not 'need' a higher level of social expenditure because it has a relatively low share of older people in its population, because it enjoys comparatively low unemployment, and so on. It is true that a number of demographic and economic factors have resulted in a lower level of expenditure than would otherwise be the case. For instance, if there were more older people or if unemployment was higher in Ireland, the level of social expenditure would 'automatically' increase. However, the high income inequality that has emerged in Ireland (for a recent report see for instance Nolan et al. 2002) is also a factor that 'calls for' higher social expenditure. As the differences in low and high wages, and between benefit income and income from work have increased, more redistribution through the benefit and tax system is needed to prevent an increase in post-tax, post-transfer inequality. In a society where the incomes derived from work – and social transfers – are highly unequal, the redistributive system has to work harder to iron out poverty and inequality. If there is a genuine commitment to combat poverty and income inequality in Ireland, higher social expenditure is called for under the current circumstances.

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Terms of Reference

Irish social expenditure in a comparative international context (CR/2001/1)

The purpose of this study is to analyse Irish social expenditure in a comparative context. Social expenditure plays an important role in alleviating market inequalities and improving living standards. Ireland has a historically low level of social expenditure, which now warrants review in the light of changing economic circumstances. The objectives of the study are:

- To review the international policy context governing social expenditure, including the factors influencing the level of social expenditure in different countries
- To situate the level and composition of Irish social expenditure in a comparative and historical policy context
- To review and comment on the level and composition of social expenditure in Ireland, taking into account international norms, economic development, tax base, demographics and social need
- To make recommendations on the future policy direction of social expenditure in Ireland.

This study should be based on published international reports, analysis of social expenditure in select countries and Irish data and policy reviews on social expenditure.

ANNEX

Table A: Social Spending Increases as percentage GDP, 1984-1997

	Total state spending			Social spending			Unemployment benefits			Pensions		
	1984	1997	increase	1984	1997	increase	1984	1997	increase	1984	1997	increase
Liberal												
Australia	36.40	33.20	−3.20	13.8	18.1	4.4	1.37	1.17	−.20	3.28	4.38	1.10
Canada	45.30	42.40	−2.90	16.2	16.9	0.7	2.03	1.04	−.99	3.35	4.40	1.05
Ireland	47.70	33.20	−14.50	17.9	17.9	0.0	3.52	2.22	−1.30	4.50	2.89	−1.61
UK	47.10	40.90	−6.20	21.1	21.6	0.5	1.78	.48	−1.30	5.74	6.43	.69
USA	33.10	31.40	−1.70	14.1	16.0	1.9	.49	.28	−.21	5.75	5.60	−.15
Average	41.9	36.2	−5.7	16.6	18.1	1.5	1.8	1.0	−.8	4.5	4.7	.2
Nordic												
Denmark	62.60	56.80	−5.80	28.9	30.5	1.6	4.95	3.81	−1.14	5.85	6.92	1.07
Finland	40.20	51.80	11.60	22.3	29.3	7.0	.90	3.19	2.29	6.42	7.55	1.13
Norway	42.10	44.10	2.00	19.7*	25.4	5.7	.48*	.70	.22	4.77*	5.58	.81
Sweden	59.20	59.00	−.20	30.0	33.3	3.3	.94	2.20	1.26	7.20	8.05	.85
Average	51.0	52.9	1.9	25.2	29.6	4.4	1.8	2.5	.7	6.1	7.0	1.0
Corporatist												
Austria	49.30	49.80	.50	24.3*	25.4	1.1	.84*	.92	.08	9.47*	10.11	.64
Belgium	60.70	51.40	−9.30	26.7	23.6	−3.1	3.62	2.67	−.95	6.84	7.44	.60
France	51.50	52.60	1.10	26.4	29.6	3.2	2.34	1.85	−.49	8.66	10.73	2.07
Germany	47.40	48.10	.70	23.6	26.6	3.0	1.05	1.49	.44	10.18	10.49	.31
Netherlands	49.40	50.00	.60	30.2	25.1	−5.1	3.98	3.30	−.68	6.81	6.58	−.23
Average	52.5	49.3	−3.2	26.2	26.1	−.2	2.4	2.0	−.3	8.4	9.1	.7
Mediterranean												
Greece	53.80	44.60	−9.20	16.9	22.2	5.3	.35	.50	.15	7.70	9.39	1.69
Italy	43.10	50.40	7.30	21.0	26.8	5.8	1.39	.79	−.60	8.90	13.24	4.34
Portugal	41.10	43.50	2.40	11.4	18.7	7.3	.27	.87	.60	3.78	6.54	2.76
Spain	35.20	39.90	4.70	17.8	20.9	3.1	2.25	1.89	−.36	5.81	8.60	2.79
Average	42.2	46.0	3.8	16.8	22.2	5.4	1.1	10	−.1	6.5	9.4	2.9
South-East Asian												
Japan	32.30	35.00	2.70	11.4	14.4	3.0	.52	.54	.02	3.65	5.50	1.85
Average	46.2	45.2	−1.00	20.7	23.3	2.6	1.7	1.6	−.2	6.2	7.4	1.1

Note: *1985 data: 1984 unavailable Source: cols. 2-7: Castles, 2001, updated by OECD 2001; cols. 8-13, OECD 2001. Countries are divided up into a conventional regime categorisation. Some countries do not fit neatly into regime-type. For example, Italy displays some Corporatist and the Netherlands some Social democratic characteristics. Categorisation for Southeast Asian countries is at present underway

IRISH SOCIAL EXPENDITURE IN A COMPARATIVE INTERNATIONAL CONTEXT: EPILOGUE

Virpi Timonen

IPA
INSTITUTE OF PUBLIC ADMINISTRATION

Combat Poverty Agency
working for a poverty-free Ireland

First published 2005
by the
Institute of Public Administration
57-61 Lansdowne Road
Dublin 4

and

Combat Poverty Agency
Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8

British Library Cataloguing in Publication Data

ISBN 1 904541 21 6

The views expressed in this text are the author's own and not necessarily those of the Combat Poverty Agency.

Cover design by Red Dog Design Consultants, Dublin
Typeset by Carole Lynch, Sligo
Printed in Ireland by Leinster Leader Ltd, Naas

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Acknowledgements

I would like to thank John Martin (Director of Employment, Labour and Social Affairs, OECD), anonymous referees, and my colleagues Eoin O'Sullivan and Tony McCashin (Department of Social Studies, Trinity College Dublin) for some helpful comments and references, which I have striven to take on board and to include to the fullest extent possible here. As always, I remain solely responsible for the contents of this report.

Virpi Timonen

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Foreword

The Combat Poverty Agency is a statutory advisory agency developing and promoting evidenced-based proposals and measures to combat poverty in Ireland. Eliminating poverty requires creating change to economic and social structures. This is so that people in poverty have improved chances of benefiting from better incomes and more life opportunities which will enhance their living standards and social participation, and reduce inequality in Irish society. Combat Poverty aims to advance such chance in a variety of ways, including through research and public education. This 'Epilogue' develops the work undertaken for the Combat Poverty Agency by Dr Virpi Timonen in the study *Irish Social Expenditure in a Comparative International Context.* It makes a valuable contribution to informing the debate about the nature and future direction of the Irish welfare state.

Background to the research

Ireland has a comparatively low rate of social expenditure. The term social expenditure refers not just to social welfare payments or income support, but also to expenditure on other social areas such as health and education.

Ireland's economy has undergone a dramatic transformation in the last decade. While this transformation has been well analysed, the evolution of social expenditure and how it has been influenced by it has received less attention. It is well known that state provision of social welfare, and high quality, efficiently delivered social services have a key role to play in poverty reduction.

It was in this context that the Combat Poverty Agency first commissioned Dr Virpi Timonen to undertake *Irish Social Expenditure in a Comparative International Context,* published in 2003. The study presented a clear definition of social expenditure and compared Ireland's approach to social expenditure with that of other advanced industrial nations. It noted that out of 15 OECD countries in 1997, Ireland had the lowest net total social expenditure after Japan, South Korea and New Zealand. The study characterised the Irish tax and social expenditure system as a 'low tax, low spend' system and consequently the level of redistribution achieved through the system was also relatively low. This also meant that the welfare system had to 'work harder' to achieve the same anti-poverty outcome as other more redistributive systems.

Responding to concerns that some of the analysis in the study was based on data produced prior to the full force of the economic boom in Ireland, Dr Timonen was commissioned to write an 'Epilogue' to *Irish Social Expenditure in a Comparative International Context*. This short report builds on the earlier publication. It presents an analysis of the most up-to-date comparative data available on social expenditure in Ireland and selected EU countries, and develops comprehensive policy recommendations.

OBJECTIVES OF THE 'EPILOGUE'

The key issues addressed in the 'Epilogue' include: comparable social expenditure trends; the relationship between wealth and social spending; the adequacy of different levels of expenditure in distinct policy areas; the relationship between inequality and social spending; the linkages between social spending and social outcomes; and proposals for social expenditure reform in Ireland.

KEY FINDINGS

The 'Epilogue' confirms that, despite dramatic growth in real terms, Irish social expenditure remains low by comparison to most of the EU-15, even when factors such as the low proportion of older people in the population are taken into account. The comparative data show that there is a strong correlation between social expenditure and income inequality: the higher social spending countries tend to have lower levels of inequality. While higher expenditure in itself does not guarantee desirable outcomes, the institutional structure of the welfare state, and the precise structure of entitlements, can have a strong impact on economic and welfare outcomes.[1] Competitiveness and high employment levels are not irreconcilable with higher social expenditure and greater income equality. Positive economic outcomes can be achieved with such a model.

POLICY IMPLICATIONS

Social expenditure in Ireland is below the level expected in a country with Ireland's economic wealth. While there may be some historical reasons for this, the 'Epilogue' re-emphasises that in countries with higher levels of market income inequality, such as Ireland, more extensive social spending is required to achieve the same outcomes as countries with a more equal market distribution of income. Despite much increased wealth, the gap between the poor and non-poor has continued to increase steadily over time in Ireland. Some groups in the population are particularly affected by income poverty, such as: older women, lone parents, and households without any one in employment. These trends point to the need to examine the balance between economic and social policy so that poverty can be eliminated and a more equitable society achieved.

EMPLOYMENT

It is acknowledged that employment is a key mechanism of poverty reduction and social integration. However, ensuring high employment will not in itself eradicate poverty or social exclusion. With an increasing number of households with somebody working falling below the poverty line, the income support mechanisms for low-income workers need to be enhanced and their take-up encouraged. For example, the Family Income Supplement needs to be reviewed with a view to making it more comprehensive and adequate, and the take-up more extensive.

1 Atkinson, Anthony (1999) *The Economic Consequences of Rolling Back the Welfare State.* Cambridge, Massachusetts: MIT Press.

To gain a foothold and remain in employment two types of service are crucial: quality affordable childcare and training/ employment services that are flexible to meet the particular needs of different groups, e.g. lone parents and people with disabilities.

INCOME REDISTRIBUTION

At any given time there will be individuals who are outside the labour market, temporarily or permanently. The focus of the Irish social system is poverty alleviation. Irish social transfers, other than pensions, are heavily concentrated on low-income individuals and households, mainly in the form of means-testing. While means-tested benefits go some way towards alleviating the more extreme forms of poverty, systems that rely strongly on means-tested payments tend to be less effective in reducing poverty rates. Recent evidence suggests that welfare states with a greater emphasis on insurance based or universal systems are more successful in reducing poverty and income inequality.[2]

SERVICE EXPENDITURE

While income support is important, it needs to be supplemented by more equal access to services. Irish spending on social services needs to better reflect its position as one of the wealthiest countries in the world. The most urgent issues include more equitable access to healthcare and the high cost of primary health care as well as education and care services for children, and older people, housing, and employment issues for vulnerable groups. However, higher social expenditure on its own may not be enough. There is also a need for a more people-centred approach to service delivery, with more appropriate and equitable institutional structures and entitlement systems. Higher expenditure may require higher rates of taxation, and

2 Bradshaw, J and Finch, N (2002) *A Comparison of Child Benefit Packages in 22 countries – Research Report # 174,* Her Majesty's Stationery Office: London.

broadening the tax base. NESC concluded in its recent strategy statement that there is a 'historic opportunity to now guide the evolution of Ireland's social assistance and social insurance system to align and converge into a truly developmental welfare state that secures social inclusion while respecting economic contingencies'.[3]

TAX EXPENDITURE

The 'Epilogue' highlights the revenue foregone in tax expenditures and the inequitable nature of these. This calls for an assessment of the extent and impact of tax expenditures in the Irish tax and welfare system. Consequently, Combat Poverty welcomes the review being undertaken by the government, which was announced in Budget 2005. We look forward to the publication of the outcomes of this work and the debate it generates.

DATA AND RESEARCH

The 'Epilogue' stresses the need for improving data both in terms of its variety and its timeliness. This would mean that we can understand better the dynamics and inter-relationships of social and economic systems, so that we can make informed choices about social expenditure.

CONCLUDING REMARKS

This 'Epilogue' to *Irish Social Expenditure in a Comparative International Context*, using the most recent data, confirms Ireland as a low social spender within the 15 Member States. It makes a convincing case for more investment in social expenditure. It sets out the areas that should be prioritised and makes a number of policy recommendations.

The publication and dissemination of the 'Epilogue' makes an important contribution to the public debate about the type of social support system we want and the trade-offs involved.

3 NESC (2003) *An Investment in Quality: Services, Inclusion and Enterprise*. Dublin: National Economic and Social Council.

Based on the experience of other European countries, it is possible to create an economic and social balance that can work to eliminate poverty and achieve equality in Ireland.

Combat Poverty

1. Introduction

This report is an 'epilogue' to *Irish Social Expenditure in a Comparative International Context*, published by the Combat Poverty Agency in 2003. The report at hand builds on and continues the analysis in the earlier report and presents the most up-to-date comparative data available on social expenditure in Ireland and selected EU countries. The key questions that are addressed in this report are as follows:

- Has social expenditure fallen, risen or remained stable in Ireland over recent years? How does social expenditure in Ireland compare to social expenditure in other European countries?
- Is the current level of social expenditure justifiable? In other words, is it appropriate to the context in which social expenditure takes place?
- What is the relationship between wealth and social spending?
- How is social expenditure divided between different policy areas, and does this allocation of resources to different areas and policies respond adequately to current and possible future needs?
- What is the relationship between inequality and social spending? Does more social spending always result in more positive social outcomes?
- In what ways might social expenditure in Ireland be reformed to produce better outcomes?

These are clearly very broad issues that cannot be treated comprehensively in a short report. However, it is hoped that the brief treatment of these topics offered here will give rise to more detailed future research and will also contribute to ongoing policy debate on social policies in Ireland.

The EU-15 will serve as the main point of comparison to Irish social expenditure, presented both as percentage of GDP and in

Purchasing Power Standards. In addition to presenting the most up-to-date social expenditure data, this report provides other relevant data such as indicators of the extent of poverty and inequality in the countries analysed. These data are used to back up the policy recommendations that are included in the last section of the report. The report contains a substantial discussion of possible structural reforms of Irish social expenditure that can be undertaken with a view to bringing about greater equality of incomes and opportunities.

The discussion of policy options focuses on the particular merits of service expenditure *vis-à-vis* transfer expenditure; the central importance of investing in good career opportunities for all population groups, particularly those who are currently marginalised in terms of their labour market opportunities; and the role that tax expenditure continues to play in absorbing resources that could be used to pay for more universal services.

DATA

It was suggested in some responses to *Irish Social Expenditure in a Comparative International Context* that the report did not contain sufficiently up-to-date expenditure figures to take into account the full impact of the Celtic Tiger era, and that in the light of the most up-to-date figures Irish social expenditure compares more favourably with expenditure in other EU countries. At the moment, the most up-to-date, reasonably reliable expenditure figures that are available relate to 2001. It is not possible to quote reliable comparative expenditure figures for later years, as figures for the years 2002-2004 are still highly provisional.[1]

1 Note, for instance, how an article by Lawlor and McCarthy published in *autumn* 2003 presents comparative expenditure figures for the *year 2003*. The fact that these figures are projections based on the early months of 2003 is not acknowledged in the article.

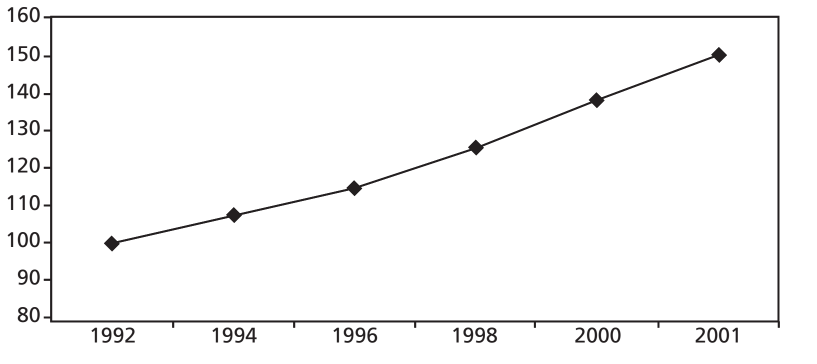
2. Has social expenditure in Ireland fallen, risen or remained stable over recent years?

There are two main indicators of social expenditure that can be used in comparative research: the share of social expenditure of a country's GDP or GNP and the amount of social expenditure in Purchasing Power Standards (PPS). The first indicator presents social expenditure as a percentage share of the country's wealth measured in GDP or GNP terms. As such, the social expenditure/GDP(GNP) figures are influenced both by changes in social expenditure itself *and* by changes in the country's wealth. For instance, if a country's economy grows very quickly and social expenditure fails to keep up with this rate of growth, the country appears to have spent less than prior to the period of growth, even where absolute growth in social expenditure has taken place (see Figure 1 illustrating the rapid growth in Irish social expenditure in the 1990s). In other words, rapid economic growth tends to suppress the levels of social expenditure as a share of national wealth and this is indeed one of the reasons behind Ireland's poor performance in the light of this indicator (see Figure 2).

It is very important to be clear about this difference between absolute growth in social expenditure and changes in social expenditure in relation to GDP/GNP. Note that the earlier report did acknowledge the rapid growth that took place in Irish social expenditure in absolute terms in the 1990s (Timonen 2003, p. 14). Note that Figures 1 and 2, despite appearing contradictory, are in fact easily intellectually reconciled, as one depicts fast growth in absolute terms and the other illustrates the fact that this growth was not sufficiently fast to keep up with economic growth. In fact, the apparent disparity between

Figures 1 and 2 is the main reason for the 'paradox' of increased inequality at a time of rising general prosperity during the Celtic Tiger years: as will be discussed below, the failure of social welfare benefits to keep up with rising earned incomes is the main underlying cause for the rise in inequality in Ireland since the early 1990s.

Figure 1: Social expenditure in Ireland per capita at constant prices (1992=100)



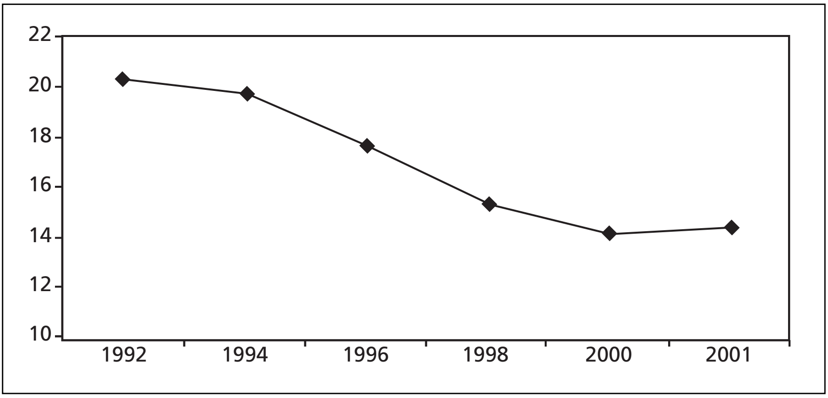
Source: Eurostat (2004).

It is sometimes argued that looking at social expenditure in relation to GDP leads to a distorted image of Irish social expenditure, because a large proportion of the wealth created in Ireland is 'exported' by multinational companies. In the case of Ireland it would therefore be more appropriate to analyse social expenditure in relation to GNP, which is an indicator of the wealth that remains in the country. While it has to be acknowledged that there is an unusually large difference between the GDP and GNP of Ireland in comparison with most other countries, it is also clear that taking this difference into account does not change the broader picture,[2] and that there are also serious

2 See Table 2.11 in Timonen (2003) which shows that Ireland remained the lowest spender in the EU-15 in relation to both the GDP and GNP.

problems regarding comparative data availability as most comparative social expenditure data present expenditure in relation to GDP, and not GNP.

Figure 2: Social expenditure in Ireland, percentage of GDP



Source: European Commission/Eurostat (2004).

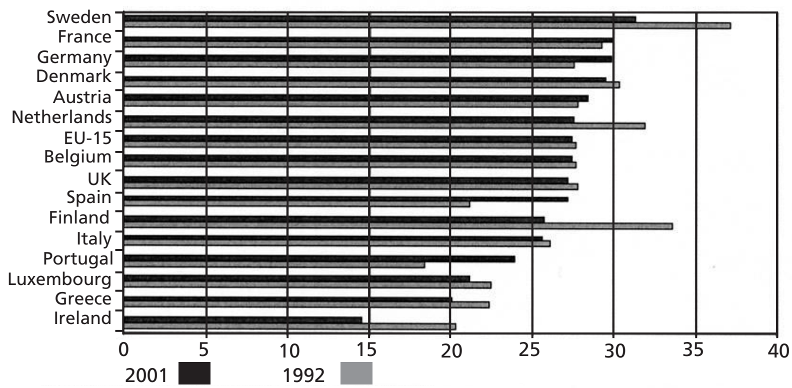
A more effective way of circumventing this problem is to analyse social expenditure in terms of Purchasing Power Standards (PPS). PPS refers to an artificial common reference currency unit that is used to express the volume of economic aggregates for the purpose of comparisons in such a way that price level differences between countries are eliminated. One PPS buys the same volume of goods and services in all the countries included in the comparison, whereas different amounts of national currency are needed to buy the same volume of goods and services in individual countries.[3]

Figures 3 and 4 present total social expenditure as a share of GDP and in PPS per capita in 2001. Ireland has a low level of social expenditure in the light of both indicators. Measured as a share of GDP, Irish social expenditure is the lowest in the EU-15. Measured in PPS terms, Ireland's total social protection

3 http://forum.europa.eu.int/irc/dsis/coded/info/data/coded/en/gl1009862.htm

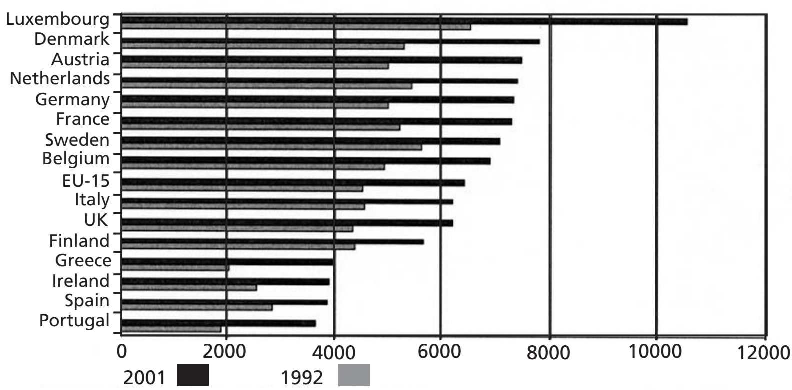
expenditure is third lowest in the EU after Portugal and Spain. As the 2003 report pointed out, even when tax expenditure, taxes on social transfers and private expenditure are taken into account (in other words, when 'net' social expenditure has been calculated), the picture of the Irish welfare state as a low spender remains unchanged (Timonen 2003, pp. 36-37; see also Adema 2001). The most recent OECD estimates, for the year 2001, indicate that Irish social expenditure both as percentage of GDP (at factor prices) and as percentage of GNP (at factor prices) was among the lowest in the OECD. These statistics confirm that, regardless of the indicator used, Ireland is undeniably a low spender in comparison not only to other EU countries but also within the context of the broader OECD group of countries (see www.oecd.org/els/social/expenditure).

Figure 3: Total social protection expenditure, percentage of GDP, 1992 and 2001



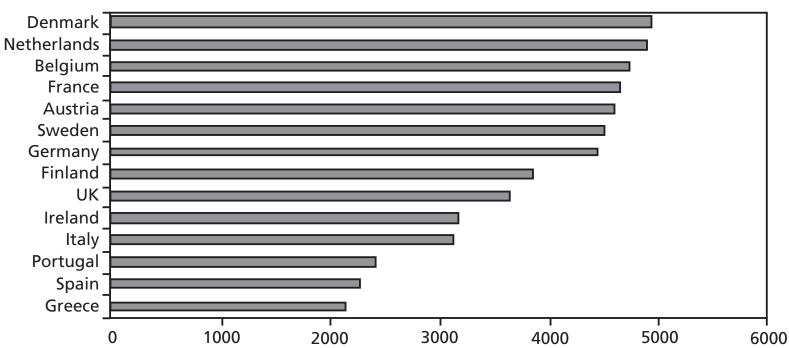
Source: European Commission/Eurostat (2004).

Figure 4: Total social protection expenditure, per person PPS, 1992 and 2001



Source: European Commission/Eurostat (2004).

Figure 5: Total social protection expenditure minus old-age expenditure per capita PPS, 2001



Source: European Commission/Eurostat (2004).

It is frequently argued that, as Ireland has an unusual demographic structure, it would be more appropriate to compare social expenditure excluding expenditure on old age. However, as Figure 5 illustrates, excluding social expenditure on old age does not significantly influence Ireland's position in relation to other EU countries because Ireland remains among the other relatively low spenders.

HOW IS SOCIAL EXPENDITURE DIVIDED BETWEEN DIFFERENT POLICY AREAS?

Table 1 presents a breakdown of social expenditure by function. It is interesting to note that Irish expenditure expressed as a share of the EU average expenditure varies considerably across different areas of expenditure. Whereas old-age expenditure in Ireland amounts only to some 28 per cent of the average old-age expenditure in the EU, Irish housing expenditure measured in PPS per capita exceeds the average housing expenditure in the EU. Health expenditure and expenditure on families and children in Ireland was close to the EU average in 2001 and it appears that expenditure in these areas is set to exceed the EU average.

Table 1: Social expenditure by function, Ireland, EU-15 average and selected countries, 2001, PPS per head of population

	Total exp.	Sickness/ Health care	Disability	Old age	Family, Children	Unempl.	Housing
EU-15	6404.9	1730.3	493	2536.1	491.2	381.4	126.6
Ireland	3875.2	1609.6	192.7	708.2	461.4	307.6	127.1
Irish exp as % of EU-15	**61**	**93**	**39**	**28**	**94**	**81**	**100.4**
Denmark	7805.1	1536.5	946.8	2877.1	1004.5	758.8	176.1
Germany	7328.6	2029.7	546.5	2883.6	730.2	577.5	48.3
Spain	3866.6	1131.3	285.2	1600.7	96.8	487.6	34.2
Netherlands	7391.8	2098.2	797.1	2495.8	303.9	344.5	97.8
UK	6180.7	1673.9	561.5	2542.2	403.8	171.9	333.7

Source: European Commission/Eurostat (2004).

Note that Table 1 does not reveal the extent to which expenditure under the same category in fact serves different purposes in different countries. For example, a large share of disability payments are in some countries made to people who in a different social policy system would receive unemployment supports. The figures in this table also exclude tax expenditure, which plays a very important role in some countries, for instance in the area of family support, through such assistance as significant tax breaks for families with children.

3. What is the relationship between wealth and social spending?

Figure 6 illustrates the relationship between GDP (in PPS per capita) and social expenditure (PPS per capita) in the EU countries. This graph demonstrates that Ireland is indeed a very significant outlier in relation to the other EU countries. At its level of national wealth, Ireland 'should' be spending 7,182 instead of 3,875.2, i.e. almost twice as much on social protection as it does at the moment, were it to conform to the overall pattern evident among EU member states.[4] Note the strong relationship between GDP and social protection: social expenditure tends to increase as national wealth increases. This suggests that, generally speaking, the wealthier a country, the more it spends on social protection (this is a well-established correlation that also holds for a larger sample of countries).

It is interesting to contrast this with the view, frequently put forward in Ireland, that wealth generation and social spending are fundamentally inimical. It is often argued that Ireland has enjoyed healthy economic growth and low unemployment resulting from the fact that it has not invested 'excessive' amounts in social protection and has not prioritised income equality. According to this argument, social expenditure and a high degree of income equality slow down economic growth and can bring about or contribute to other undesirable economic outcomes such as excessive deficit spending, government debt and high unemployment.

Examining the complex relationships between these variables is clearly outside the remit of this report. However, comparative research suggests that there is no general tendency for inequality to influence economic growth either negatively or positively

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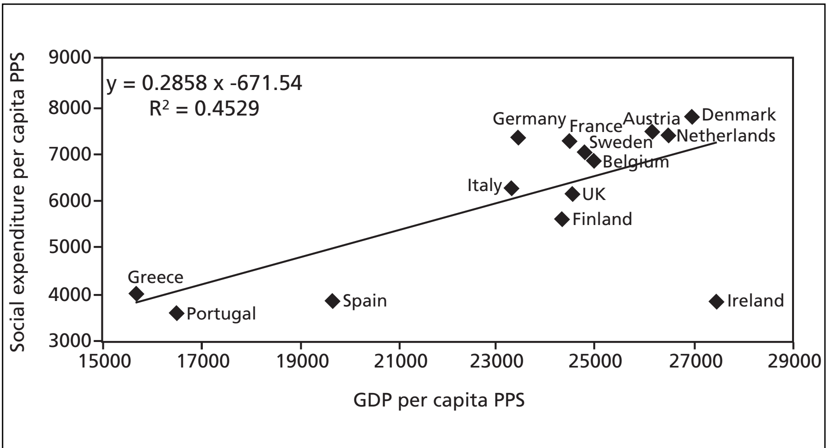
4 Based on calculation y = 0.2858 x -671.54.

(Kenworthy 2003). It is clear even from very superficial observation that many 'high spenders' in the EU have also achieved very healthy economic indicators such as low unemployment, high economic growth rates, low levels of debt, competitiveness etc.

Figure 6: Social expenditure and GDP



Source: European Commission/Eurostat (2004).

Analysis of ten years of panel data by Goodin et al. (1999) showed that 'there is no necessary trade-off between economic efficiency and a generous welfare state' (for a brief summary of this study, see Headey et al. 2000). In other words, there do not appear to be any strong grounds for arguing that higher social expenditure would lead to negative economic outcomes. In fact, the opposite has been shown to be the case in a number of comparative studies. Social expenditure is not the zero-sum game that it is often argued to be, but rather results in win-win situations where expenditure is of benefit both to worse-off sections in society and to the society and economy as a while. Moreover, less spending on social expenditure may mask the fact that spending in other areas that effectively deal with the results of social exclusion is higher: for instance, some countries with low levels of social expenditure have relatively large prison populations and high law-enforcement costs (Kilcommins et al. 2004).

It has to be borne in mind, however, that higher expenditure in itself does not guarantee desirable outcomes. The institutional structure of the welfare state, and the precise structure of entitlements, can have a strong influence on both economic impact and welfare outcomes (Atkinson 1999). For instance, the United States spends a considerably larger proportion of its GDP than any European country on health expenditure, yet the highly unequal profile of this expenditure (a large share of health expenditure in the US is private) is one of the reasons behind the fact that health outcomes in the US are only average or below average in many areas.

Also, it is important to note that improved outcomes in some areas are inevitably associated with long time-lags: in the area of health, for instance, positive outcomes, e.g. increased life expectancy, reduced mortality rate from various diseases and reduced morbidity rates, can only be achieved and detected after a considerable period of time has elapsed between increased investment in the policy area and the measurement of outcomes. Furthermore, outcomes in most policy areas are the result of a large number of variables interacting over a long period of time: good examples are health indicators that are shaped by life style factors and overall levels of socio-economic development, in addition to health expenditure.

Nonetheless, it would be foolish to dismiss recent significant increases in some policy areas such as health and educational disadvantage as ‘waste of money’: the long time-lags associated with these areas mean that assessment of progress is as yet premature, and a large share of the added resources has been absorbed by increases in salary costs, which is inevitable at a time of rapidly rising salaries in other sectors of the economy.

4. Are current levels of social expenditure in Ireland 'justified' or 'appropriate'?

It is often argued that due to its relatively young population structure and low unemployment, Ireland does not 'need' to spend as much as other European countries that suffer from high unemployment and are burdened by their ageing populations.[5] Whether this argument stands up to scrutiny is easily established by examining expenditure in areas such as old age, families and children, and unemployment, in the light of the variables that can be interpreted as expressing 'need' for social expenditure. In the case of demographics, we will see how expenditure on old age relates to the old-age dependency ratio and how expenditure on families and children relates to the youth dependency ratio. In the case of employment, we will see how expenditure on unemployment benefits relates to the level of unemployment.

Old age

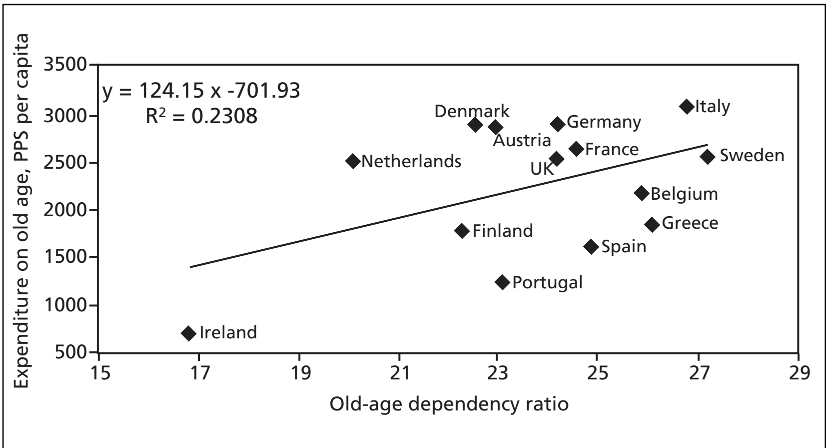
Ireland has the second-lowest old-age dependency ratio in the 25-member EU[6] (United Nations 2003). Does this justify the relatively low social expenditure level in Ireland? In order to answer this question we will first look at the relationship in the EU-15 countries between the old-age dependency ratio and old-age expenditure (Figure 7). Generally speaking, countries with higher old-age dependency ratios spend more on their older population than countries with low dependency ratios. While

5 See for example an article by Mary Harney in the *Irish Times* 24 October 2003 ('The PDs care about social justice, as recent facts and figures show').

6 The old-age dependency ratio (i.e. number of persons 65 years old and over per 100 persons aged 15-64 years) is marginally smaller in Slovakia.

Ireland does have a low old-age dependency ratio *and* low social expenditure on its old-age population, it spends *even less* than the Irish old-age dependency ratio would seem to suggest (as indicated by its position below the regression line).

Figure 7: Old-age dependency and old-age expenditure, 2001

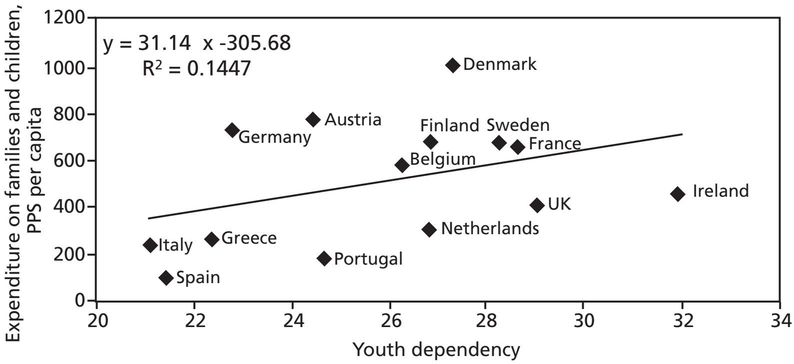


Source: European Commission/Eurostat (2004) and United Nations (2003).

FAMILIES AND CHILDREN

In contrast to its low old-age dependency ratio, Ireland has a relatively high proportion of young people in the population. This would seem to suggest that Ireland should spend more than the other EU countries on social protection of children and families. While the relationship between the youth dependency ratio and expenditure on families and children (both measured in PPS per capita) is not very strong, once again Ireland deviates from the general trend by spending less than its youth dependency ratio would seem to suggest. It is interesting to note that while there is much variation among the EU countries, they can be roughly divided into high and low spenders on children and families, Ireland belonging to the latter group despite its high youth dependency ratio.

Figure 8: Youth dependency ratio and expenditure on families and children, 2001

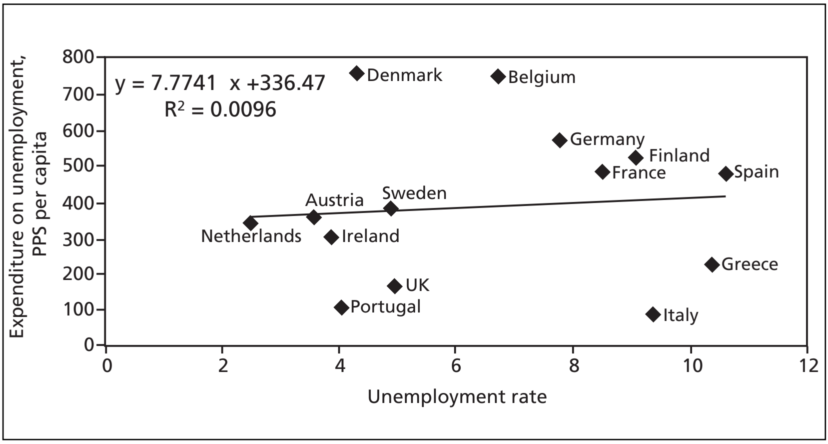


Source: European Commission/Eurostat (2004) and United Nations (2003).

UNEMPLOYMENT

Figure 9 shows that at the chosen point in time (2001), there was no significant correlation between the EU countries' unemployment rates and their level of unemployment-related expenditure. It appears, therefore, that expenditure in this particular area is influenced by factors other than the level of unemployment. It is not possible to analyse the reasons for this within the scope of this report, but it is likely that differences in national definitions and practices in the area of unemployment policies play an important role in fading away this intuitive connection. Once again, however, unemployment-related expenditure is lower in Ireland than in the EU countries on average.

Figure 9: Unemployment rate and expenditure on unemployment, 2001



Source: European Commission/Eurostat (2004) and United Nations (2003).

INFRASTRUCTURE

It is sometimes argued that the extensive investment in infrastructure that is currently needed in Ireland makes high social expenditure impossible. It is certainly the case that Ireland is at a catching-up stage in developing its infrastructure. Most other wealthy European countries have made these investments in infrastructure at an earlier stage, and are therefore in a position to spend more on current expenditure, including social expenditure. However, it is also the case that social expenditure would in many ways reinforce this expenditure on infrastructure, and that high levels of infrastructural spending do not preclude the possibility of spending more on social protection simultaneously, provided there is willingness to keep taxes at a level that is capable of consistently sustaining both types of expenditure.

5. Summary of arguments against higher social expenditure in Ireland

As the discussion above has shown, it is somewhat artificial to examine social expenditure in the light of factors that could be argued to 'drive' such expenditure. The graphs above show that while expenditure in some areas, e.g. old-age expenditure, appears to be quite strongly correlated with 'objective needs' for such expenditure, as measured crudely through old-age dependency, no such strong relationship exists between other key areas of expenditure and the social/economic realities that could in principle influence expenditure (in the case of expenditure on children and families, there is only a very weak correlation with youth dependency ratios, and the relationship between unemployment rates and unemployment-related expenditure is even weaker).

The short conclusion that we can draw from the discussion above is that social expenditure, even within fairly narrowly defined areas of expenditure, is influenced by several different factors, and that capturing these factors is at best very complicated and at worst impossible. 'Politics' is one possibly highly significant factor; however, it is not possible to discuss it within the scope of this report.

Despite these limitations and reservations regarding the use of social and economic indicators to prescribe the 'right' levels of social expenditure, it is nonetheless interesting to examine the relationship between such indicators and expenditure. Also, such an exercise provides an opportunity to respond to the opponents of higher social expenditure who often base their arguments on the lack of 'objective' grounds for higher expenditure. Taking into account a selection of key variables such as share of the older and younger people in the population, unemployment rate and national wealth, how 'should' Irish social expenditure compare with average expenditure in the EU? Comparisons with the EU averages are often criticised for being 'inappropriate' because most other EU countries have welfare states that are very different from Ireland's, both structurally and in terms of their basic aims. For this reason, Table 2 also contains a comparison with the UK which is arguably the welfare state that has most in common with the Irish social protection system ('most similar cases').

Table 2: Social expenditure and possible key determinants of social expenditure in Ireland and the EU-15, 2001

	Ireland	**EU-15** (UK)	**Ratio** Ireland in relation to EU-15 (UK)	**'Prescribed' expenditure in Ireland**[7]
Share of older population (65+)	11.2	16.6 (15.1)	0.67 (0.74)	1072.8
Unemployment	3.8	7.4 (5.0)	0.51 (0.76)	816.6
Share of young population (0-19)	30.8	23 (25.3)	1.34 (1.22)	2145.6
GDP per capita PPS	27480	23340 (24530)	1.18 (1.12)	1889.5
Social expenditure per capita PPS	*3875.2 (actual)*	*6404.9 (actual)* *6181 (UK)*	*0.61* *(0.63)*	***5924.5 (prescribed)***

Source: European Commission/Eurostat (2004); European Commission/Eurostat (2003a); European Commission/Eurostat (2003b).

7 The 'prescribed' amounts are based on the hypothetical assumption that each of the four key independent variables (old age population, young population, wealth and unemployment) determine one quarter of total expenditure.

Table 2 shows that the EU countries on average (and the UK) have older populations and higher unemployment than Ireland, factors that would seem to 'necessitate' higher social expenditure in these countries. On the other hand, Ireland has a higher proportion of young, and therefore mostly 'dependent', people in its population, a factor that would seem to call for higher expenditure. Ireland's GDP is also considerably above both the EU average and UK GDP, another factor that could be interpreted as both enabling and necessitating above-average social expenditure.

If we want to summarise, very crudely, the joint impact of these four variables, it seems that social expenditure in Ireland 'should' be 0.93 times the average expenditure for the EU-15, and 0.96 times the UK social expenditure.[8] In this sense, therefore, those who point to the lesser 'need' for social expenditure in Ireland can feel vindicated, although the difference is only very marginal; essentially it means that Ireland 'should' spend 7 per cent less than EU countries on average and 4 per cent less than the UK. However, as the last row of this table indicates, Ireland in fact spends 40 per cent less than the EU-15 on average on social protection, and 37 per cent less than the UK.

In other words, there is a very substantial difference between the level of social expenditure that the 'objective realities' of Ireland's social and economic profile would seem to call for and the actual level of social protection in this country. The difference between the actual and prescribed levels of social protection, based on the EU average, is 2049 PPS, i.e. a 53 per cent increase in Irish social expenditure would be necessary for it to reach the level indicated by the four key variables.

Do the 'outputs' of Irish social protection policies, operating on the basis of this relatively low level of investment in social protection, indicate that low social expenditure is in fact yielding the poor results that we would expect? We will now turn to

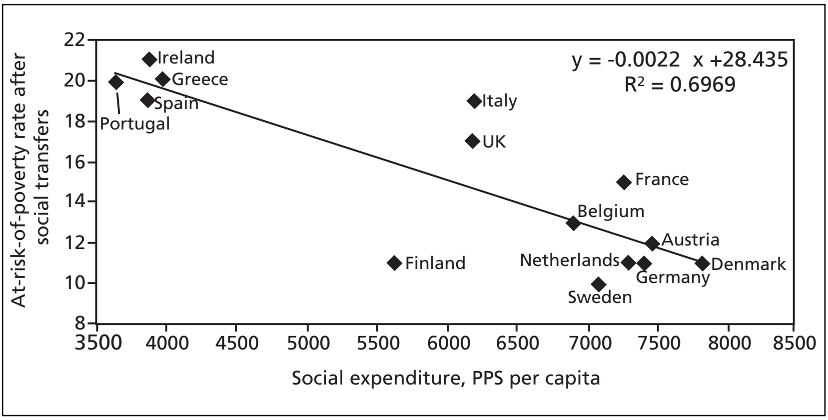
8 This ratio is calculated by taking the average of the four ratios (old age population, youth population, unemployment and GDP) in Table 2.

analysing some key indicators of the effectiveness of social expenditure, namely levels of poverty and inequality that pertain in Ireland and other countries.

6. Does higher social expenditure always result in more positive social outcomes?

This section discusses briefly inequality in Ireland in comparison with other European countries. In the light of the discussion above, it comes as no surprise that the outcomes of the Irish redistributive system are rather poor, as evidenced in comparatively high levels of inequality.

Figure 10: Social expenditure and post-transfer poverty (60% of median)



Source: European Commission/Eurostat (2004).

There is a well-established and straightforward relationship between social expenditure and poverty: countries that spend more tend to enjoy lower levels of poverty, and vice versa (Cantillon, Marx and van den Bosch 2002). Figure 10 shows that

Ireland belongs to the cluster of EU countries, also comprising Spain, Portugal and Greece, that have highest poverty rates (in the light of the 60 per cent of median income definition of poverty). All EU countries that invest more in social protection are consistently achieving lower rates of poverty than this high-poverty cluster that Ireland belongs to.

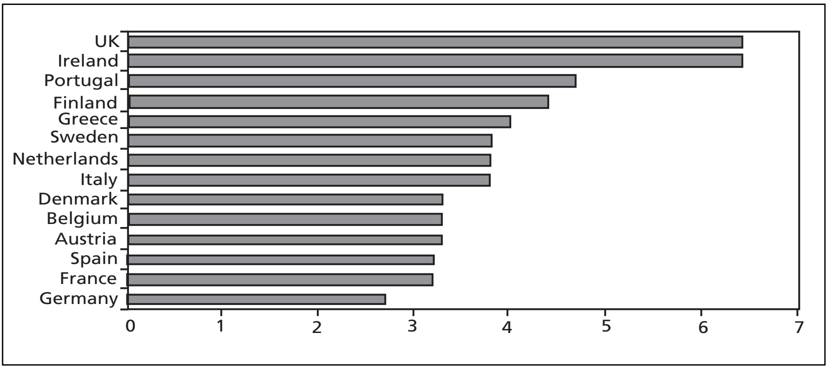
The fact that there is a strong correlation between total social spending and income inequality does not mean that a similarly strong correlation can be found between all areas of expenditure and related social outcomes. For instance, as we have seen above, there does not appear to be any connection between unemployment-related social expenditure and unemployment rates: this is partly because the statistics on unemployment-related expenditure for a large number of countries fail to capture the many different kinds of employment/unemployment supports in operation in different countries, and partly because unemployment rates are a result of the interaction of a very large number of social and economic influences, of which social expenditure is only one.

Nonetheless, the correlation between social spending and inequality is very strong, indicating that social expenditure does influence the degree of income inequality in a society, although a number of other factors, such as (in)equality of earned incomes clearly play a role in shaping the final distribution of incomes also. Measuring the proportion of the population falling below the 60 per cent poverty line is only one of several different ways of measuring poverty/inequality. However, Ireland's comparative position with respect to levels of inequality is extremely unfavourable in the light of all major internationally applied indicators of poverty and inequality.[9]

9 It has to be acknowledged that, in the light of the so-called consistent poverty indicator, poverty levels in Ireland have decreased significantly over the last 10 years (see e.g. Layte, Nolan and Whelan 2004). However, this indicator is not commonly applied in international comparisons and Ireland is one of the very few countries where this indicator is used to monitor poverty levels. Policymaking in most other EU countries is informed by relative income poverty indicators.

The ratio of income held by the top quartile of the population to the income held by the bottom quartile is another common indicator of overall income inequality; a higher ratio indicates greater inequality – see Figure 11. In the light of this indicator Ireland is, together with the UK, the most unequal country in the EU-25. The ratio in Ireland is 6.4 in contrast to the unweighted EU average of 3.7 (Russell and Whelan 2004: 6).

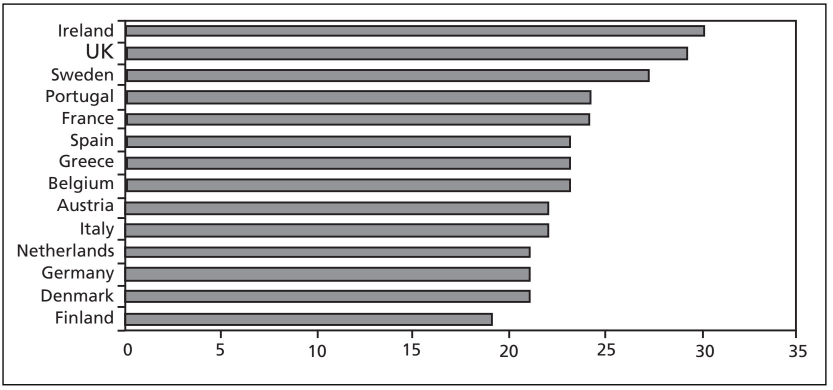
Figure 11: Inequality: ratio of highest and lowest incomes (total incomes of bottom and top quartiles



Source: Russell and Whelan (2004).

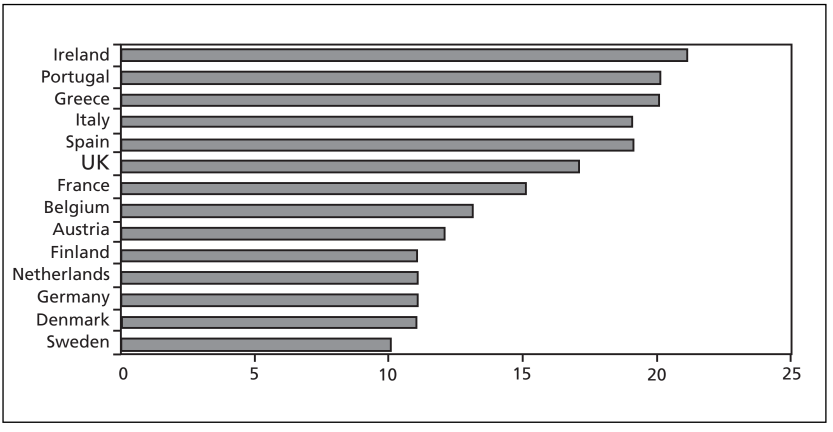
Figures 12 and 13 show that Ireland has the highest pre- and post-transfer poverty rates among the EU-15. The transfer system in Ireland is able to reduce income inequality, but it is operating in a context where pre-transfer incomes are more unequal than elsewhere in the EU, and the relatively modest scope of social policy, as evidenced by relatively low levels of social expenditure, also means that the extent of poverty-reduction is more limited.

Figure 12: Pre-transfer poverty, 2001



Source: European Commission/Eurostat (2004).

Figure 13: Post-transfer poverty, 2001



Source: European Commission/Eurostat (2004).

It is also important to acknowledge that income poverty is not evenly distributed across the population, but rather tends to affect some groups more than others. Perhaps most worryingly, Ireland belongs to the group of rich English-speaking countries that are characterised by high child-poverty levels

(Micklewright 2004). Considering that overall poverty levels and child poverty levels have been shown to be very strongly positively correlated (Brady 2004), this comes as no surprise. Other groups that research in Ireland has identified as particularly at risk include older women, single-person households, lone parent households and households where nobody is in paid employment (Whelan et al. 2003).

Perhaps even more worryingly, it appears that the depth and duration of poverty have increased in Ireland. A study by Whelan et al. (2003) of income inequality in Ireland between 1994 and 2001 states that this 'gap between the poor and the non-poor has increased steadily and substantially over time'. In other words, the 'depth' of poverty has increased. Many would argue that short-term poverty is unpleasant but not particularly harmful. However, medium and long-term poverty clearly result in distress, abandonment of many habitual leisure pursuits and even social contacts, inability to save and invest, running down of basic assets and so on. The rate of persistent poverty[10] has also increased in Ireland, indicating that more individuals are finding it harder to achieve income levels that would bring them above the relative poverty line. In 2001, Ireland had the third-highest level of persistent poverty among the EU-15, Greece and Portugal having a marginally higher rate.

Subjective perceptions of Irish people also appear to confirm that feelings of social exclusion are more prevalent in this country than in most other EU countries, and that adverse socio-economic circumstances increase these feelings of social exclusion. Non-skilled individuals, the unemployed and those with lower levels of education are considerably more likely than the employed and those with high levels of education and belonging to the professional class to perceive themselves to be socially excluded (Böhnke 2004).

10 The share of persons with equivalised disposable income below the risk-of-poverty threshold in the current year and in at least two of the preceding three years. The threshold is set at 60 per cent of the national median equivalised disposable income.

7. Policy recommendations

Policy proposals and policy making should ideally be based on solid evidence. What kind of policy recommendations emerge from the evidence presented above and from other evidence that is available on the structure and problems of Irish social policy?

There is plentiful and undisputable evidence of the following:

- Income distribution is comparatively unequal in Ireland.
- Ireland spends a modest share of its wealth on social protection in comparison with most other EU countries, or indeed most other advanced industrialised countries.

While there is no straightforward or automatic causal relationship between these two facts, it is nonetheless likely that certain social and economic reforms would help to bring about more equal income distribution and more equal access to social and health services in Ireland. As the original social expenditure report pointed out, whether this is deemed a desirable policy objective is always in the final analysis a political decision. The importance that is attributed to achieving more equal distribution of incomes in Ireland is the central factor that determines the direction of spending (and, by extension, taxation) policies in Ireland.

Given the limited scope of this document, it is clearly not possible to provide a detailed blueprint for future reforms of Irish social expenditure, i.e. the entire social policy structure of the country. The tentative recommendations put forward here focus on a limited number of broad policy and expenditure areas that are deemed to be in particularly urgent need of attention and reform. The key features of the Irish social expenditure and social policy system that underlie these recommendations are the following:[11]

11 Due to limitations on the length of this report, it is not possible to elaborate on these in detail. However, the report contains a brief discussion on some of these features and references to more detailed studies are provided in the footnotes.

- The high share of means-tested benefits in total social expenditure[12]
- The relatively marginal role of social insurance[13]
- Tax-financing[14]
- The importance of informal (unpaid) care provided by family members to children, older people and people with disabilities and the relatively limited role of the state in providing/financing these services (see Table 3 below)
- High income inequality (see Figures 11, 12 and 13 above)
- Low but increasing share of older people in the population
- Rapidly increased female labour force participation, but significant drop in employment level for women with two or more children, reflecting, among other things, poor childcare supports[15]
- Relatively low unemployment, but many 'working poor'[16]
- Very low employment rates for people with disabilities[17]
- Strong influence of socio-economic class on many social indicators such as mortality, morbidity and access to third-level education

12 Means-tested benefits constitute an extremely high share of overall social expenditure in Ireland. Whereas the EU-15 countries spend on average less than 10 per cent of their social expenditure on means-tested benefits, these benefits amount to just over one-quarter of social expenditure in Ireland (European Commission/Eurostat 2004).

13 See for instance McCashin (2004). The fact that social insurance benefits in Ireland are effectively flat-rate and capped at a very low level is one of the main contributory factors behind the weak attachment of middle- and high-income earners to the social protection system in Ireland.

14 In 2001, general government contributions (tax financing) covered nearly 60 per cent of all public social expenditure in Ireland, in contrast to the EU-15 average of 36 per cent. Conversely, the share of employee and employer contributions in financing social expenditure in Ireland is among the lowest in the EU.

15 Whereas the average OECD employment rate for 25 to 54-year-old women with two or more children was 61.9 per cent in 2000, the labour market participation rate for women in this group in Ireland was only 40.8 per cent (OECD 2003a: 37).

16 In 2001, nearly one-quarter of those on less than 50 per cent of average income in Ireland were employed or self-employed (CORI 2004).

17 The very low relative employment rates of disabled to non-disabled persons in Ireland are highlighted in OECD 2003a: 39.

The recommendations put forward here focus on four areas:

- Employment-focused policy
- Income security for those not in employment
- Service expenditure
- Tax expenditure.

EMPLOYMENT-FOCUSED POLICY

It is generally acknowledged that 'the most disadvantaged persons are … those with poor education, low-skill employment, and a high exposure to unemployment' (Alber and Köhler 2004: 51). In other words, the 'traditional' forms of inequality based on income, education and employment remain the most pervasive and persistent ones. Enabling people to access employment and to progress on their chosen career paths through (lifelong) education and training and supporting the incomes of low earners are keys to addressing these traditional forms of inequality.

The overriding priority of the Irish government policies at the moment is creating and sustaining a high level of employment (see e.g. Office for Social Inclusion 2003). Many experts and international organisations such as the OECD would agree that this is the correct priority. EU member states have agreed that raising the employment rate to 70 per cent of the working age population is their common central aspiration. The employment rate in Ireland is currently very close to the EU average (approximately 65 per cent in 2003).

Extensive consensus therefore exists both in Ireland and other countries that employment is a key mechanism of social integration and poverty reduction, and that unemployment is to be fought as one of the key contributors to poverty and social exclusion. However, ensuring high employment levels does not automatically eradicate poverty or social exclusion. Alongside other liberal welfare states, Ireland is affected by the 'working poor' phenomenon. This refers to a group of people who, despite being in employment, suffer from poverty. Nearly 20 per cent of the people falling into the 'consistently poor' category in Ireland are in employment. The proportion of households where the reference person is employed falling under the 60 per cent poverty line increased from 2.6 per cent in 1998 to 8.1 per cent in 2001 (Office for Social Inclusion 2003, p. 4). This indicates that income support mechanisms for low-income workers need to be enhanced and their take-up encouraged.

There is widespread agreement of the following among policy makers and analysts in developed welfare states, including the liberal ones such as the UK and the US:

- Some groups need more help than others to gain a foothold in the labour market and to remain in employment. Two types of services are of crucial importance, namely child care and training/employment services. While Ireland has a reasonably good track record in the area of active labour market policies, much more can be done in this area. With regard to childcare, the availability in Ireland of these services to low- and middle-income workers, and to lone parents in particular, is very poor.
- Non-market mechanisms are needed to enhance the earned incomes of some groups in order to prevent the emergence of 'the working poor', i.e. individuals and families that work full-time but cannot reach the poverty threshold. Another important motivation for these policies is the elimination of so-called poverty traps or disincentives to work, i.e. situations where income from benefits and supports exceeds the low incomes that can be earned on the labour market.

Due to the focus on the relatively low unemployment rates in Ireland in recent years, there has been a tendency to pay insufficient attention to the working poor, those in atypical employment[18] and those who find it difficult to progress to better paid employment. Increased resources should be devoted to

18 See Gash (2004).

enabling adults to undertake further study and training and to helping disadvantaged groups such as people with disabilities and lone parents to access the labour market (e.g. Gannon and Nolan 2004, Martin and Grubb 2001). Many liberal welfare states have embraced the principle of boosting low incomes from work: the most important examples here are the Earned Income Tax Credit in the US and the Working Families Tax Credit in the UK.

While the Family Income Supplement (FIS) programme in Ireland does to some extent serve a similar purpose, it is not as comprehensive and extensive as the systems in the US and the UK.[19] For instance, in 2003 there were only some 7,000 recipients of the Back to Work Allowance and only some 12,000 families received the Family Income Supplement in Ireland. The majority of Family Income Supplement recipients were given a payment amounting to less than €75 per week (Department of Social and Family Affairs 2003). There clearly is much scope both for expanding the availability and take-up of this kind of programme and for making such programmes more closely related to living costs and average incomes.

INCOME SECURITY FOR THOSE OUTSIDE THE LABOUR FORCE

In the Irish context, work-poor households are particularly prevalent among older people (55-64), lone parents, people with a disability or a chronic health problem, those with no qualifications and those with a history of unskilled work (Russell et al. 2004). While efforts to integrate these groups into the labour market are necessary and desirable, it also has to be acknowledged that, for a variety of reasons, at any given time, there are individuals who are outside the labour force temporarily or permanently. Because 'poverty trends are directly

19 These tax-credit based systems of income supplementation obviously suffer from a number of limitations and difficulties, but their very existence does reflect a concern, however modest, with the phenomenon of the 'working poor'. Evaluating the potential usefulness of these programmes in the Irish context would form the topic of an interesting future study.

related to the level and quality of employment *and to the systems of income support for those who cannot work or are retired*' (Office for Social Inclusion 2003, p. 3), increasing employment levels can never result in the elimination of inequality: improvements in transfers are required, too.

All social policies are based on implicit or explicit beliefs about the purpose of benefits and services. In many countries, the aim of social policies is to bring about equality in the form of relatively small post-tax, post-transfer income differentials. Other countries put less emphasis on equality and limit their aspirations to preventing the emergence of the most extreme forms of poverty and deprivation that would manifest themselves in, for example, inability to purchase adequate foodstuffs, to afford the bare minimum of clothing, to be able to live in warm accommodation etc.

If a modest degree of poverty alleviation mainly through means-tested benefits is the chosen path in the future in Ireland, no major reforms are needed. As was illustrated above, the post-tax, post-transfer poverty rate in Ireland is lower than the pre-tax, pre-transfer poverty rate: the tax and redistribution policies in this country are therefore accomplishing the aim of reducing inequality, although they still produce poverty levels that are higher than in the other EU-15. The means-tested and relatively low flat-rate benefits are therefore going some way towards alleviating the more extreme forms of poverty ('consistent poverty' and the proportion falling below the 40 per cent poverty line). Most evidence indicates that current social policy making in Ireland restricts its ambition to preventing *consistent poverty* measured with the help of a combined deprivation and relative income poverty indicator (Office for Social Inclusion 2003, p. 23). However, were Ireland to adopt more ambitious aims regarding the eradication or prevention of relative poverty, radical changes in policy would be necessary.

There is extensive economic and social policy literature on the effectiveness of different types of social protection mechanisms in reducing poverty and inequality. While some have argued that targeted (means-tested) measures are the best approach to reducing poverty/inequality (e.g. Le Grand 1982), others have provided evidence that a universalist approach, with an emphasis on social insurance and universal benefits, is more successful in achieving more equal income distribution (e.g. Korpi and Palme 1998). Recent evidence indicates that welfare states with a greater emphasis on encompassing non-targeted policies are more successful than liberal welfare states that have a very minimalist, targeted emphasis (Nelson 2004a and 2004b). However, it has to be acknowledged that income distribution is influenced by factors other than social policy such as the inequality of earned incomes (pre-tax, pre-transfer incomes), the level and average duration of unemployment, and so on.

According to Nelson, 'the pooling of risks and resources across socio-economically heterogeneous population groups within [social insurance schemes] creates certain conditions for an effective alleviation of poverty … the introduction of social transfer programmes responding to the demand for income security among middle- and higher-income groups helps to promote generous social benefits to citizens in lower income segments … the higher the degree of income security in social insurance is, the higher the level of social benefits provided to individuals in the lower tail of the income distribution tends to be' (2004a: 31). As many of the individuals affected by income poverty in Ireland are dependent on benefits as their main or only source of income, the relatively low level of these benefits is clearly the reason for the fact that these individuals are living in poverty. Closer linking of benefits incomes to incomes earned from work is needed if benefit recipients' incomes are not to fall below the poverty line. In the balance between means-tested and social insurance/universal benefits, a shift is therefore required towards the latter, together with closer linking of social insurance to earned incomes.

The high levels of income inequality in Ireland are first and foremost the result of an increase in the gap between the incomes of those in employment and those on benefits and pensions

(Whelan et al. 2003). In order to reduce inequality in Ireland, this gap would have to be narrowed. It is questionable whether relative poverty can be successfully and consistently prevented in systems that rely strongly on means-tested and non-indexed flat-rate payments, such as the Irish social security benefits. A basic prerequisite for attempting to prevent relative poverty among those outside the labour force would be linking benefits and payments to prices and wages.[20] This would ensure that those deriving their incomes from benefits would keep up with wage earners and not fall behind in income distribution, as has happened in Ireland.[21] While all benefit incomes should be adjusted to ensure they keep up with increases in incomes from work, the incomes of groups such as lone parents and older people are a particularly urgent priority as these groups suffer disproportionately from income poverty.

SERVICE EXPENDITURE

The area of health and social services is obviously too complex to make any in-depth policy recommendations in the context of a short report. However, it is clear that Irish spending on social services in particular falls significantly below spending in most other EU and even OECD countries. Table 3 shows that expenditure on services for families, older people and people with disabilities is at a particularly low level in Ireland in relation to the average share of national wealth devoted to these services in the OECD countries.

20 Some commitments have been made to linking benefits to incomes, for instance in the National Pensions Policy Initiative (1998), which aims at bringing the Contributory Old-Age Pension to 34 per cent of average industrial earnings.

21 Work disincentives need not result from such a strategy, provided that receiving benefits is strictly conditional on willingness to work and re-train where necessary.

Table 3: Categories of Irish social expenditure, 1980-1998 (percentage of GDP) and percentage of the OECD average in 1998

	1980	**1990**	**1998**	% of OECD average
Old age cash benefits	4.02	3.72	2.54	**35**
Disability cash benefits	0.52	0.78	0.74	**50**
Services for older people and people with disabilities	0.51	0.44	0.36	**43**
Family cash benefits	1.02	1.59	1.58	**120**
Family services	0.05	0.04	0.16	**29**
Active labour market policies	..	1.38	1.16	**173**
Unemployment cash benefits	..	2.58	1.72	**131**
Health care	6.84	4.82	4.66	**82**

Source: OECD (1998).

Increasing social expenditure without regard to structural considerations is not always sufficient to attain desirable policy aims. This is all the more the case in the area of services, where much of increased expenditure can be absorbed through various types of cost inflation and through catching-up in terms of basic infrastructure. While health spending has increased very rapidly over the last years, several indicators point to the poor and unequal health outcomes in Ireland (Wren 2003). In other words, increased spending *per se* does not appear to be delivering an effective and equitable health care system.

The reasons for this are many and complex, but some international guidelines are available on the kind of investment priorities and innovations that are demonstrably effective in increasing productivity and quality of health care (OECD 2004).

However, the fact that Irish people are considerably less satisfied with their health care systems than citizens of the EU15/25 member states would appear to provide an endorsement of profound reform activity in this area (Alber and Köhler 2004: 41).

Among the most urgent issues are inequitable access to health care and the high cost of primary health care in relation to the lowest incomes among groups without a Medical Card entitlement. Extending Medical Card entitlement to cover more low-income households, particularly households with children, should be a key priority area. It is also clear that as private medical insurance in Ireland operates within a highly imperfect market structure, it has not contributed to a more cost-effective provision of health care and its role should therefore be reviewed and reconsidered as a matter of urgency (see Colombo and Tapay 2004).

There are many reasons why investing more in 'social' services is an urgent priority in Ireland (see also NESC 2003 for a more comprehensive treatment of this area). Social services is a very broad concept that embraces many different areas such as integration policies for immigrants, transport policy, housing policy and care services for children and older people. There is plentiful evidence of the unequal outcomes in health, education and housing that result partly from the lack of adequate public investment or misdirection of resources (for educational disadvantage see McCoy and Smyth 2003, for health inequalities see Wren 2003, for housing inequality see Fahey et al. 2004).

The possibly declining ability and/or willingness of families, and women in particular, to carry heavy informal care workloads should also act as a catalyst both to improving care services for children, people with disabilities and older people, and to developing employment rights and social entitlements that enable the combination of, or alternation between, paid work and informal care giving. Informal care work poses a significant poverty risk on carers, and this group is therefore in need of both improved income transfers and greater opportunities for combining work and care duties. Recent research has established that female labour force participation reduces overall, old age and child poverty levels, and that investment in care services that help women to undertake paid employment outside the home constitutes one part of an effective anti-poverty policy (Brady 2004; Büchel, Mertens and Orsini 2003). The OECD has highlighted the shortage of appropriate childcare and made a very clear case for increased public investment in childcare in Ireland (OECD 2003b). It has pointed out the numerous benefits of childcare and early childhood education services for children's cognitive abilities, mothers' employment opportunities and the economy as a whole.

The question of universal vs. means-tested entitlements is also relevant in the area of services. In some areas, e.g. public childcare services that are targeted to very low-income parents, the criteria for receiving services is strongly based on inability to pay for market-priced services. In other areas, e.g. health care, the ability to take out private insurance or to contract private providers can significantly influence access to and quality of services obtained. In other areas still, e.g. some supports for older people, small-scale service programmes are emerging that include only very limited means-testing, if any. In other words, there is great diversity in the basis of entitlement to various services.

As a general rule, access to services should be increasingly based on demonstrated need for help, care and assistance, and the criteria for any contribution that the service user has to make should be clear and uniform across the country. While the mixing of public and private (insurance and out-of-pocket) financing in the service sector, and health care in particular, has become a firmly entrenched feature of the Irish welfare state, the fact that 'private' services are often partially publicly financed should be openly acknowledged; the extent of such public funding of privileged access to services should be estimated; and the full cost of this privileged access to services should be borne by those who avail of them or otherwise benefit from them.

TAX EXPENDITURE

The extent and impact of tax expenditures in the Irish tax and welfare system should be thoroughly assessed. Available data indicate that, in 2002, nearly €1.3 billion in revenue was foregone through tax exemptions on private pensions. The 'cost' of mortgage interest relief and other loans relating to housing was over €200 million in foregone revenue. Tax expenditure on private health insurance was approaching €90 million (Office of the Revenue Commissioners 2003, p. 63).

Defenders of tax expenditure are correct when they point out that some of these allowances are enjoyed by considerable numbers of people in Ireland. For instance, some 450,000 individuals and households enjoy tax relief in respect of private medical insurance, and mortgage tax relief benefits over 400,000 households. However, the proponents of tax breaks rarely highlight the fact that better-off individuals and households derive considerably greater monetary value from such tax breaks. For instance, while only some 18 per cent of those who receive tax breaks in respect of private medical insurance have incomes in excess of €60,000, their share of the total tax expenditure in this area is nearly 28 per cent, in contrast to the 12 per cent of households with incomes below €17,500 whose share of total tax expenditure is around 7 per cent.

In the case of mortgage interest relief, the wealthiest 17 per cent of those receiving the tax break garner 23 per cent of the total value of the tax break (Office of the Revenue Commissioners 2003, pp. 89 and 91). In the case of tax breaks for private pensions, the skewed redistribution where those on highest incomes derive the greatest benefit from the scheme is even more evident (Hughes 2001, Hughes and Stewart 2004). This pattern of tax expenditures flowing overwhelmingly to citizens with above-average incomes has been confirmed by several studies (e.g. Howard 1997), and it is expected that, in the absence of very careful planning and targeting, any additional tax breaks and increases in tax breaks in Ireland would most likely have a regressive redistributive effect.

The total extent of tax breaks for social purposes, and their redistributive profile, should be made clear and public. This should be followed by an open debate regarding the fairness of such tax breaks. Tax expenditure on private pensions which disproportionately benefits the better-off now exceeds expenditure on non-contributory state pensions which typically go to the worst-off pensioners. This is a choice that is very difficult to justify in terms of fairness, and calls for a fundamental rethink of tax expenditure policies and, more specifically, of pensions policy.

8. Conclusion

This report has confirmed that, despite dramatic growth in real terms, Irish social expenditure remains low by comparison to most of the EU-15, even when factors such as the low proportion of older people in the population are taken into account. Comparative data show that there is a strong correlation between social expenditure and income inequality: the higher spending countries tend to have lower levels of inequality.

Comparative research has also shown that competitiveness and high employment levels are not irreconcilable with higher social expenditure and greater income equality. In fact, higher social expenditure can not only help to bring about lower levels of income inequality but can also contribute to positive economic outcomes, and is certainly not inimical to these, as the example of many other wealthy countries shows.

It is clearly not possible to provide a blueprint for the reform of the entire Irish social protection system within the scope of this short report. However, a number of reforms have been suggested here, including:

- increased service expenditure
- reduced tax expenditure
- greater efforts to integrate excluded groups into the labour force
- mechanisms for increasing low incomes from work
- mechanisms for linking benefit incomes to earned incomes.

These reforms are justifiable on the grounds that they would make a significant contribution to the incomes and welfare of individuals and families that are currently on relatively low incomes, in particularly difficult labour market situations, or extremely pressurised due to work and family obligations.

This report has not argued that increased social expenditure will automatically, and in isolation from all other factors, result in more positive social outcomes: rather, it calls for more careful policy planning that takes into account the redistributive outcomes of different policy instruments, and gives greater priority to addressing both income inequality and the inequalities in access to services and employment that many people in Ireland still suffer from.

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Appendix: Terms of Reference

Title of report: *Irish Social Expenditure in a Comparative International Context: Epilogue*

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Description of work

The purpose of this report is to present the most up-to-date comparative data available on social expenditure in Ireland and selected EU/OECD countries. Other EU countries will serve as the main point of comparison to Irish social expenditure, presented both in percentage of GDP terms and in Purchasing Power Standards terms.

In addition to containing the most up-to-date social expenditure data, the report will contain other relevant data such as measures of poverty and inequality in the countries analysed. These data will be used to back up the policy recommendations that are included in the last section of the report.

The report will in particular attempt to address the views and criticisms presented in various political responses to the publication of the original report.

The report will also contain a substantial discussion of possible structural reforms of Irish social expenditure that could be undertaken with the view to bringing about greater equality of incomes and opportunities. The discussion of policy options will focus on the particular merits of service expenditure *vis-à-vis* transfer expenditure; the central importance of investing in good career opportunities for all population groups, particularly women who are currently marginalised in terms of their labour market opportunities; and the role that tax expenditure continues to play in absorbing resources that could be used to pay for more universal services.